

Informing the audit risk assessment for South Lakeland District Council 2021/22

Gareth Kelly
Director
T +44 (0)141 223 0891
E Gareth.Kelly@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	15
Impact of Laws and Regulations	16
Related Parties	18
Going Concern	20
Accounting Estimates	22
Accounting Estimates - General Enquiries of Management	23
Appendix A – Accounting Estimates	26

Purpose

The purpose of this report is to contribute towards the effective two-way communication between South Lakeland District Council's external auditors and South Lakeland District Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from South Lakeland District Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>Local Government Reorganisation</p> <p>a) On 21st July 2021 each local authority within Cumbria was notified that, subject to Parliamentary approval, two new unitary authorities would replace the current local government structure in Cumbria, with the Barrow, Eden and South Lakeland areas being a footprint for a new unitary authority covering the east of the County (Westmorland and Furness Council) and the Allerdale, Carlisle and Copeland areas being the footprint for a new unitary authority covering the west of the County (Cumberland Council), effective from 1st April 2023. All six districts and Cumbria County Council will cease to exist in their current format on 31st March 2023. The Cumbria (Structural Changes) Order 2022 was approved in March 2022. A direction was made under s24 of the Local Government and Public Involvement in Health Act 2007 which limits disposal of land and entering into contracts.</p> <p>b) The successful East/West proposal which was submitted by Allerdale and Copeland Councils suggested that estimated annual savings of between £19.1m and £31.6m would be achieved and that the transition would require a total one-off investment of between £17.6m and £23.8m. In regular monthly meetings with DLUHC it was noted that government is not intending to monitor deliver of the bid savings.</p> <p>c) Following the announcement, the Cumbria Chief Finance Officer's Group, attended by all S151 Officers of the seven Cumbrian authorities have worked together on all financial aspects of LGR with advice and support from CIPFA, the LGA, MHCLG, Pixel and other local government finance specialists.</p> <p>d) A county-wide LGR Implementation Reserve has been established from March 2022, administered by Cumbria County Council and funded by initial contributions of £9.4m from Cumbria CC and £1.577m from each of the six district councils. A MoU governs the use of the monies and if any balances remain in the Reserve once the Implementation Plan has been delivered the balance will be shared 50/50 with the two new Unitary Councils.</p> <p>e) Joint Committees were established from the end of March 2022 (first meeting of Westmorland and Furness on 29th March 2022) with elections to the Shadow authorities on 5th May 2022 and the first meetings of the new Shadow authorities in late May.</p>

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>Covid-19 has had the following impacts:</p> <ul style="list-style-type: none"> a) Financial implications: <ul style="list-style-type: none"> a) Continued loss of income, especially from car parking charges in some areas (offset by additional income in other areas), NNDR and delays in Council tax collection. The values are lower than those for 2020/21 but with less support from Government grants. b) Additional government grants <ul style="list-style-type: none"> a) sales fees & charges for April – June 2021 only (£116k agreed, paid March 2022) b) business support (NNDR reliefs, closed business grants, omicron etc) c) other grants including test and trace support grants c) Impact on longer term financial sustainability: additional costs for 2020/21 were offset by exceptional grants from Government but grant assistance has only covered the first quarter of 2021/22. Final outturn has identified only a small additional impact on budgets from Covid-19 for 2021/22 and the majority of the Covid-19 contingency budget has not been required. d) Increases in demand: although lower than 2020/21 still around £60m of grants paid to support businesses and individuals b) Continued prioritisation of resources around business as usual / Covid / projects <p>Other key events:</p> <ol style="list-style-type: none"> 1) Kendal Town Hall / South Lakeland House were closed to the public and undergoing renovation for part of the year: KTH has now fully reopened while the works to SLH were complete in June 2022. 2) Contracts have been agreed for the Cross-a-Moor roundabout scheme with grants being paid from 15th March 2022 and works complete and the roundabout open in July 2022 3) The Kendal Flood Defence ERDF scheme has continued during 2021/22

General Enquiries of Management

Question	Management response
<p>2. Have you considered the appropriateness of the accounting policies adopted by South Lakeland District Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>The accounting policies have been reviewed and the revised policies were approved by Audit Committee in December 2021.</p> <p>Treatment of investment properties has been reviewed during 2021/22 but no change to policies was required.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>The Council has very straightforward financial arrangements. There has been no use of short term borrowing. All long term borrowing is through fixed interest, maturity loans from the PWLB and there has been no new borrowing in year.</p> <p>All investments are in accordance with the TM policies approved annually in February as part of the budget approval process. Exceptionally Council approved the amendment of the TM policies as part of the Covid-19 budget review to raise the limit for Money Market Funds from £5m to £10m and to permit funds to be left at the Council's main bank where the money was received as earmarked grants (this change made permanent in the TM policies approved in February 2021).</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>None in additional to the areas set out in question 1 above</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	<p>We carry out an impairment review on our non-current assets as part of our final accounts process. Renovation of South Lakeland House/Kendal Town Hall – KTH reopened May 2021. SLH is open but 2/3 was still with the contractors at 31/3/22 and was handed back May 2022.</p> <p>There have been no material insurance claims related to PPE during the year.</p>
6. Are you aware of any guarantee contracts? If so, please provide further details	<p>The Council agreed a guarantee for a road-improvement scheme at Cross-a-Moor near Ulverston in October 2020. Funds have been set aside in the capital programme to fully fund the guarantee from capital receipts should it be called upon. Further guarantees were sought relating to Growth Deal funding for the same scheme, full details were reported on Council on 30th March 2021. The scheme completed in July 2022 and final payment is expected to be agreed before completion of the 2021/22 audit.</p> <p>Other guarantees relate to the LSVT in March 2012: there has been no change in the circumstances around these guarantees in 2020/21.</p>
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	<p>None that are material.</p> <p>MMI settlement scheme – the latest accounts for 2020/21 report that no further changes to the payment percentage and levy rate are currently anticipated. However, following a previous suggestion that there could be a further levy a reserve was established to meet any costs.</p>
8. Other than in house solicitors, can you provide details of those solicitors utilised by South Lakeland District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>We received advice on a range on litigation matters, a Health and Safety prosecution, the recent Judicial Review relating to LGR and on other case work. We are also involved in a group legal action in relation to price fixing by a truck Cartel</p> <p>Details have been shared directly through info in a file “Legal spend”</p>

General Enquiries of Management

Question	Management response
<p>9. Have any of the South Lakeland District Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>No</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>VAT: Lancashire County Council and PS Tax as required</p> <p>Treasury including valuation of financial instruments: Link Asset Services</p> <p>Local Government Reorganisation: Connect PA for The Bay, other consultants for implementation of Cumbria LGR have been procured and appointed by Cumbria County Council including BBLtd and KPMG. CIPFA are advising and assisting with the project management of the Finance and Commercial group.</p> <p>Asset management and valuations: LSH until September 2021 when this was brought in-house</p> <p>For more details see Advisor spend submitted directly through inflo</p> <p>External advisors are used for some technical areas of operational activity including viability assessments for planning applications, quantity surveyors for construction schemes etc which are not included in this list but can be provided if required.</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>Full details are set out in the Credit Loss and Impairment allowance questions in the accounting estimate management responses</p>

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As South Lakeland District Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from South Lakeland District Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has South Lakeland District Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>Although there is ongoing risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. This includes a dedicated counter fraud officer to investigate allegations of fraud.</p> <p>The risk of material misstatement of the accounts due to undetected fraud is assessed to be low. Although there is an on-going risk of fraud being committed against the Council, clear and effective arrangements are in place to prevent and detect fraud. No material instances of fraud have been identified in 2021/22.</p> <p>The Counter Fraud specialist undertakes reactive, and proactive investigations across the organisation, which includes higher risk areas such as housing benefits and council tax. The risk of material misstatement of the accounts due to un-detected Fraud is considered low.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>There are no material instances of fraud that have been identified during the year. There are some areas that are inherently at risk from fraud such as:</p> <ul style="list-style-type: none"> • Covid related grants and reliefs • Council Tax, including Single person discount, and NNDR including Small Business Rate Relief • Income streams such as sales, fees and charges. • Cyber related fraud • Procurement. <p>The Council is a participant in the National Fraud Initiative and review matches as they become available (NFI data sets and app check).</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within South Lakeland District Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>Not beyond the routine housing benefits / grant / discounts frauds seen every year.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Risk of fraud has been reviewed as part of the fraud risk assessment process which supports the fraud strategy and the work of the Fraud Specialist. Material changes to activity will result in a re-alignment of work of the Fraud Specialist: for example the quantity and value of Covid-19 grants to businesses. Fraud risk assessment will also influence the internal audit plan – Covid-19 grants was included in the plan for 2021/22 and has received reasonable assurance:</p> <p>KEY STRATEGIC FINDINGS</p> <p>Testing supported that the Council has properly managed and administered the various Covid-related business grant schemes in line with Government guidance.</p> <p>All events relevant to the determination of the grant claims should be summarised and captured within the software that was used to manage the claims.</p> <p>The risk of fraudulent applications was mitigated using appropriate measures, including site visits, data validation techniques and local knowledge.</p> <p>When requiring the applicant to self-certify eligibility, all eligibility criteria relevant to the grant should be requested of the applicant.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within South Lakeland District Council where fraud is more likely to occur?</p>	<p>Covid-19 business grants, grants to individuals and business rate reliefs.</p> <p>Including:</p> <ul style="list-style-type: none"> a) Claiming businesses were closed while still trading b) Claiming to be the business owner / operator and claiming monies due to others c) Claiming second homes were actually holiday lets (this area of potential fraud was highlighted to Government, proposals have now been made to restrict the ability to classify homes as holiday lets unless there is evidence of letting activity.) <p>Excluding Covid-19, the main areas of business at risk of fraud are housing benefit and council tax benefit claims, business rate grants and relief, creditor payments. Individual service fraud risk assessments can be made available.</p> <p>No locations have been identified as a greater fraud-risk</p>

Fraud risk assessment

Question	Management response
<p>6. What processes do South Lakeland District Council have in place to identify and respond to risks of fraud?</p>	<p>The Council employs a Fraud Specialist to monitor and review systems and processes to identify and address fraud risks. She also gives advice and guidance to officers and carries out fraud risk assessments and investigates suspected fraud. She coordinates the National Fraud Initiative submissions and responses. Fraud is included in internal training (including induction training).</p>
<p>7. How do you assess the overall control environment for South Lakeland District Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Internal audit review – rolling 3 year programme to review key risks including core financial and governance systems. Include reviews of appropriateness and application of Financial Procedure Rules & Contract Procedure Rules. Integra finance system requires separation of raising and authorising of purchase orders. Invoices received centrally for payment and matched to PO/GRN. Separation of duties in review and approval of Covid-19 grants through ESB agile system. Limits on signing of contracts: require review by Monitoring Officer or legal services team. Additional checks are undertaken in relation to payment of certain Covid-19 checks where payee details were checked against external databases in accordance with the requirements of the Government’s Business Grants Team (Jointly Department for Business, Energy and Industrial Strategy and Ministry of Housing, Communities and Local Government) and other grant making bodies.</p> <p>There are no areas where there is potential for override of controls or inappropriate influence over the financial reporting process. No pressure is placed on officers to achieve financial targets.</p>

Fraud risk assessment

Question	Management response
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>There are three main reasons for misreporting:</p> <ul style="list-style-type: none"> • Error • Omission • Misjudgement <p>Significant payments (over £10,000) checked by bank signatory before payment (it should be noted that due to the number of Covid-19 grant payments there were spot-checks of each grant payment run rather than 100% check on each payment).</p> <p>Staff involved in the preparation of the accounts are qualified and keep their CPD up-to-date which includes attending the CIPFA year-end training sessions and sessions offered by Grant Thornton. Gov.uk and CIPFA email alerts are used to ensure changes to proper practice are identified and followed. All elements of the accounts are reviewed by a second senior finance officer to check for error, omission and misjudgement. Changes between years are reviewed to identify particular areas for review.</p> <p>For 2021/22 the areas with greatest risk are:</p> <ul style="list-style-type: none"> • Non-current assets, particularly valuations of land and property, due to the number of assets, the complexity of the accounting treatments and the values involved. • Collection fund accounting: particularly the value and treatment of additional Covid grants and the tax income guarantee calculation and treatment of deficits • Non-collection fund Covid grants and the treatment (agency v. principal, cost of services or general taxation). • Housing benefit subsidy – no new issues but large values. • Pension valuations – no new issues beyond market instability due to the international political situation.

Fraud risk assessment

Question	Management response
<p>9. How does South Lakeland District Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>Leadership team development values and behaviours which have been incorporated into the Council Plan refresh approved in February 2021. Team leader training is being roll-out in all teams.</p> <p>Leadership team have received training on corporate governance and this has been rolled out to all staff with the training recorded and available on the internal training website.</p> <p>Corporate governance is a standing item on Corporate Management Team agendas.</p> <p>The Constitution includes officer and member codes of practice.</p> <p>The Fraud Specialist publishes guidance and updates on fraud awareness and gives training including publication of fraud reporting phone number. There is also e-learning on fraud prevention available to all staff.</p> <p>The Council also has policies on whistleblowing, anti-bribery/corruption and money laundering available on SharePoint and on the main Council website.</p> <p>No significant issues have been reported.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Leadership team / Finance Specialists / Bank signatories / Legal / Procurement / Revenues staff / Benefits staff / System administrators / IT staff / Planning, building control, licensing, environmental health staff</p> <p>Risk assessment by Counter Fraud specialist as part of individual service fraud risk assessments; risks managed through training, controls on levels of approval, separation of duties and recording of decisions and transactions.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Training on requirements of officer and member codes of conduct</p> <p>Members interests recorded and publicly available</p> <p>Registers of gifts and hospitality</p> <p>Internal audit review carried out in 2021 on Members Interest and Declarations: reported to Audit and to Standards Committees in April 2021.</p> <p>Annual reviews of related parties via questionnaires.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>An annual report to the Audit Committee summarises arrangements for identifying and responding to fraud risk and the anti-fraud activity that has taken place over the previous 12 months. This report was last considered by Audit Committee in December 2021</p> <p>Audit Committee receives all internal and external audit reports, which would highlight any actual fraud as well as identifying potential fraud.</p> <p>Audit Committee received a Covid-19 update in September 2020 which included reference to potential fraud around business grants.</p> <p>Right of Head of Internal Audit / S151 Officer / Monitoring Officer to report to Audit Committee (including private meeting annually between audit and Audit Committee).</p> <p>Right of Head of Internal Audit / S151 Officer / Monitoring Officer to report directly to Chief Executive on any material concern.</p> <p>Material individual concerns communicated by S151 of relevant member of CMT and to Monitoring Officer.</p> <p>No material frauds have been identified. If a material fraud were identified, the Chair of Audit Committee would be informed along with auditors.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that South Lakeland District Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does South Lakeland District Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the South Lakeland District Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>This is dealt with in the annual governance statement.</p> <p>All reports to committees contain a section covering the legislation on the matter under consideration, which are reviewed by legal staff for decision reporting.</p> <p>The Monitoring Officer is responsible for ensuring that the council is compliant with laws and regulations. These responsibilities include:</p> <ul style="list-style-type: none"> • Report on contraventions or likely contraventions of any enactment or rule of law • Report on any maladministration or injustice where Ombudsman has carried out an investigation • Investigate and report any misconduct in compliance with regulations • Advice on vires issues, maladministration, financial impropriety, probity and policy framework and budget issues to all members <p>The Monitoring Officer has access to all committee reports and also raises awareness on legal requirements at meetings where needed. In addition, in terms of any specific issue, they would get involved at an early stage, including vetting reports for legal issues.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through the Annual Governance Statement process.</p> <p>The S151 officer is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements. The Monitoring Officer (or representative) attends Audit Committee meetings and advises members on any areas of concern.</p> <p>Regular updates of the Council's risk register are considered by CMT and the Audit Committee. The financial and legal implications are set out in the committee reports.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>No</p>

Impact of laws and regulations

Question	Management response
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	No
5. What arrangements does South Lakeland District Council have in place to identify, evaluate and account for litigation or claims?	The process is consistent with the prior year. The Monitoring Officer is responsible for identifying and evaluating claims in the first instance. If the Council could not deal with claims in-house then an external solicitor is engaged.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No

Related Parties

Matters in relation to Related Parties

South Lakeland District Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by South Lakeland District Council;
- associates;
- joint ventures;
- a body that has an interest in the Council that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in South Lakeland District Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and South Lakeland District Council Whether South Lakeland District Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>Note 34 to the accounts details the material related parties: details for 2021/22 are still being collected but disclosures for 2020/21 included: board member of Ulverston Community Enterprise (which operates Coronation Hall and Ulverston Markets and a separate member who is director of a leisure company in the area with operations on Lake Windermere.</p> <p>During 2019/20 an internal audit report on Members Interests and Declarations was reported to Audit Committee in April 2021: https://democracy.southlakeland.gov.uk/ieListDocuments.aspx?CId=135&MId=5042&Ver=4 and was assessed as "reasonable assurance" with 3 recommendations. The report was also considered by Standards Committee in April 2021: https://democracy.southlakeland.gov.uk/ieListDocuments.aspx?CId=139&MId=5041&Ver=4 Additional guidance has been issued for 2021/22 reiterating that <i>all</i> directorships should be included in disclosures and would be checked against Companies House.</p>
<p>2. What controls does South Lakeland District Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Officers receive and collate questionnaires on related parties from officers and members. Any discrepancies from previous years declarations, appointments or officer knowledge are identified then these are chased up individually. Transactions are checked for all related parties identified. The council nominates representatives to organisations which are approved via Cabinet or Council. Reports on representation on organisations boards are reported to the Council. The Council has ceased its relationships with South Lakes Housing during 2021 following the LSVT in March 2012.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Members receive training to support the appropriate governance of their role and their compliance with laws, regulations and the requirements of the role. This includes training on related party transactions, and the expectations of their role in ensuring only appropriate transactions are undertaken, and that all are approved and reported on.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>All transactions have to follow standard Council procurement guidelines, which include a number of key controls at each step in the transaction. Related party transactions are captured, and reported on in full. The controls above are in place for all related party transactions, regardless of whether they are inside, or outside the normal course of business.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by South Lakeland District Council will no longer continue?</p>	<p>Officers review financial ratios to demonstrate the Council's liquidity and debt exposure. The Council also prepares a Medium Term Financial Plan, Capital Strategy and Treasury Management Strategy which collectively set out the expected income, expenditure, liabilities and assets over the next 4 financial years. These documents include a financial risk assessment and a review of reserves available to meet those risks. Collectively these documents suggest statutory services can continue to be provided.</p>
<p>2. Are management aware of any factors which may mean for South Lakeland District Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>Under the Cumbria (Structural Changes) Order 2022, South Lakeland District Council will cease to exist as an entity on 31 March 2023. All services, functions, assets and liabilities will be transferred to the new Westmorland and Furness Council on that date. There is no indication that statutory services or funding for statutory services will be discontinued beyond the current expected reform of local government funding which is expected to reduce income from business rates where SLDC current collects significantly more than its baseline income and benefits from the Cumbria business rate pool.</p>
<p>3. With regard to the statutory services currently provided by South Lakeland District Council, does South Lakeland District Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for South Lakeland District Council to cease to exist?</p>	
<p>4. Are management satisfied that the financial reporting framework permits South Lakeland District Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>Material transactions / events etc: most significant is impact of Covid-19 on value of assets, additional grants (including classification between agent and principal) and impact on outstanding debts and NNDR appeals.</p> <p>Valuation for Rating (Coronavirus)(England) Regulations 2021 replaces the impact of NNDR appeals on the grounds of material change of circumstances going forwards.</p>
<p>2. How does the Council's risk management process identify and address risks relating to accounting estimates?</p>	<p>For 2020/21 officers updated a risk assessment process which considers:</p> <ul style="list-style-type: none"> • Value • Impact on operating costs • Criticality to operational delivery • Past experience • External scrutiny (area of political / public sensitivity) • Judgement: where specific expertise is required <p>Risks are graded low (green), medium (amber) and high (red). This reflects the methodology set out in the CIPFA Balance Sheet management in the public services – a framework for good practice.</p> <p>Where risks are identified as high the key issues will be summarised and reported to Corporate Management Team. There are no significant changes to the risk assessment for 2021/22.</p>
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>Methods: based on changes in regulation and external guidance (accounting standards, ACOP and ACOP Guidance Notes).</p> <p>Assumptions: based on past experience, consideration of best practice and professional knowledge.</p> <p>External advisors and valuers are used for land and property (LSH), pensions (Mercers) and financial instruments (Link)</p> <p>Source data: comes from a number of sources depending on the nature of the estimate but includes balances and transactions on Integra (where relevant) and records of ownership of land and buildings.</p> <p>Need for changes: based on in-year review of changes in standards / guidance / good practice and changes in ownership / values.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
4. How do management review the outcomes of previous accounting estimates?	<p>For land & buildings, investment properties and pensions valuations the values at 31 March 2022 are compared to changes and values at 1 April 2021 as provided by external advisors. Estimated useful lives are compared to repair and maintenance costs and projections.</p> <p>For provisions for bad debts and provisions for appeals, the estimates are reviewed against actual write-offs or actual appeals settled, the levels of liability outstanding and any changes in systems, processes or legislation during the year.</p> <p>For material accruals, the estimate is compared to the actual settled value, where known.</p> <p>Any material changes are reported as identified: none have been identified for 2021/22.</p>
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	None have been identified and planned.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Identified through the professional and organisational expertise of the finance specialists: material areas of spend are reviewed regularly through the corporate budgeting and monitoring process. Some balance sheet management is also carried out. Also from internal and external audit advice and reviews.</p> <p>The major areas of accounting estimates relate to the valuation of non-current assets where external advice and valuations are prepared: land and property, financial instruments and pensions.</p> <p>Allocations of staff time, and therefore allocation of management overheads, are based on information provided by each Operational or Specialist Lead.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>It is judgement based primarily on materiality but will also take into account changes in the regulatory/accounting environment and best practice.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Regular monitoring reports are provided to Cabinet, Overview and Scrutiny Committee and Council, and are subject to further review as necessary. Reports on specific areas, such Customer Connect are considered directly by the Audit Committee.</p> <p>We are reliant on assurance from the Pensions Team at Cumbria County Council as the Administering Authority. Previous valuations have been prepared by LSH, the Council's property services contractor: these valuations are now carried out in-house following the end of the contract period.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>Notes 4 and 5 of the Statement of Accounts is allocated to these accounting estimates together with the impact of different assumptions.</p> <p>We have a tiered approach to review and management oversight of accounting estimates. Detailed work is carried out in the finance team. Where there are significant estimates, these are discussed with the s151 officer, who oversees the subsequent work to calculate and disclose outcomes. The Audit committee is briefed on all such matters and the presentation and publication of the financial statements.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?</p>	<p>Interpretation of agent / principal status around accountable body schemes (Kendal Flood Alleviation ERDF Scheme, Cross-a-Moor roundabout) and Covid-19 grant schemes.</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>Yes- Accounting estimates are made by members of the finance team with sufficient skill and knowledge. The finance team at SLDC is experienced and there have been no issues in prior year audits surrounding estimates. Accounting treatment used by the Council is in line with IFRS and the Code of Practice.</p>
<p>12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>Professionally qualified finance team, undergo regular training to ensure skills and knowledge are up-to-date. Use of external support where required. Internal and External audit reports: including monitoring of recommendations Receipt of Accounting Policies and Statement of Accounts: opportunity to review and question officers. From April 2021 consideration of General Queries of Management will be reported to Audit Committee.</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	<p>The Council re-values most of its assets every four years as part of a rolling programme. Valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors ("RICS") Valuation Standards (6th Edition) and guidance provided by CIPFA. Significant assets, including car parks, are reviewed on a 2-year cycle.</p> <p>Also review for material change either through enhancement or impairment and review of significant assets outside the rolling programme.</p>	<p>Asset valuations provided by internal RICS valuer for land and buildings, museum collection valuation provided by expert.</p> <p>Asset life estimates provided by internal RICS valuer or asset owner (for VPE).</p> <p>SLDC staff use own knowledge and experience to review values and asset lives.</p>	<p>Use RICS qualified valuer employed by Council.</p>	<p>To mitigate the risk of material error arising from PPE valuations, the Council operates a 4 year rolling programme of asset valuations. In addition, where the professional valuers identify evidence that an asset may need reviewing, this will also be done outside of the main programme. As a matter of course all assets with a value of more than 10% of the total assets value are valued every two years.</p> <p>In addition there is a potential impact of up to £3.765m 2020/21 figures) from the (surplus) or deficit on revaluation of non-current assets, not charged to the revaluation reserve.</p> <p>Although the value of assets on the balance sheet would reduce, this would have no overall impact of the financial viability of the Council.</p>	<p>Yes; full review of investment properties has resulted in some properties now being treated as OLB rather than investment properties.</p>
Depreciation	<p>Covers all assets with a finite useful life, other than freehold land. Higher value assets such as office buildings and leisure centres are split into components where doing this would have a material impact on the depreciation charged in year. Charge calculated on opening balance sheet values over estimated useful asset life.</p>			<p>The impact of a 10% change in valuation of significant assets would result in £110k of extra depreciation in the CIES, though this is reversed out of the general fund in the MIRS.</p>	<p>Only consequential changes resulting from re-categorisation of investment properties.</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Investment property valuations	Annual valuation at fair value in existing use.	Asset valuations provided by internal valuer (RICS qualified) for land and buildings	Use RICS qualified valuer employed by SLDC.	Based on valuer developing estimates and assumptions consistent about how market participants would price the property. The valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, the valuers use the best information available. A full review of all investment properties has been carried out during 2021/22 to review if they are correctly categorised and a number have been transferred to OLB or community assets	Yes: following audit findings for 2020/21.
Valuation of defined benefit net pension fund liabilities	Based on discount rates, salary increases, changes in retirement ages, mortality rates and expected returns on pension fund assets. Included within the assets of the pension fund are investments in direct and indirect property (totalling £13.7m at 31/3/22).		Use actuary employed by Mercers appointed by Cumbria County Council as pensions administrator	The effects on the net pension liability of changes in individual assumptions can be measured, however, there are statutory overrides in place to ensure that the impact on the Council's usable reserves is limited to the amounts actually payable in year. Note 35 includes sensitivity analysis of the impact of changes in actuarial assumptions on plan assets and liabilities.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Significant Provisions (NDR Appeals)	The VOA provides access to records of appeals and their outcomes for the 2010/2017 lists. They also give details of challenges and appeals under the check/challenge/appeal process. These lists are used to predict the potential costs of refunds on outstanding challenges and appeals based on past results	Balanced back to VOA totals Checked back to actual refunds made	No	The level of uncertainty has been materially reduced with the passing of the Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Act 2021 which has clarified that changes will not be made to rateable values solely as a result of coronavirus.	There has been a change in legislation of what should be included in the appeals provision.
Significant Accruals	Accruals are based on expenditure incurred that has not yet been paid or income due that has not yet been received. Accruals (prepayments) are also reviewed where payments are made or income received which does not relate to work carried out by 31st March.	Accruals for income and expenditure are principally based on known values. Where accruals are estimated they are based on the latest information available.	No		
Credit loss and impairment allowances	Please see above and the paper "accounting estimate management responses - SLDC 21.22"				



[grantthornton.co.uk](https://www.grantthornton.co.uk)

© 2022 Grant Thornton UK LLP

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.