

# Informing the audit risk assessment for Buckinghamshire Council 2020/21

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# Table of Contents

Section	Page
Purpose	X
General Enquiries of Management	X
Fraud	X
Fraud Risk Assessment	X
Laws and Regulations	X
Impact of Laws and Regulations	X
Related Parties	X
Accounting Estimates	X
Accounting Estimates - General Enquiries of Management	X
Appendix A – Accounting Estimates	x

## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Buckinghamshire Council's external auditors and Buckinghamshire Council's Audit and Governance 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 Buckinghamshire Council's Audit and Governance Committee under auditing standards.

## Background

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

This two-way communication assists both the auditor and the Audit and Governance 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 and Governance Committee and supports the Audit and Governance 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 Buckinghamshire Council's oversight of the following areas:

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

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Buckinghamshire Council's management. The Audit and Governance 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
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	Two main key events : First year of operation for the New Council and Covid-19
2. Have you considered the appropriateness of the accounting policies adopted by Buckinghamshire Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies were reviewed for appropriateness for the new council and considered by the Audit and Governance Committee in March 21.
3. Is there any use of financial instruments, including derivatives?	Yes there are financial instruments (no derivatives) such as loan to wholly owned company, treasury investments in money market funds and property pooled funds. Borrowing to fund our Capital Programme
4. Are you aware of any significant transaction outside the normal course of business?	All the transactions relating to Covid 19 are outside the normal course of business

# 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?	The impact of Covid-19 on the economy and financial markets has been considered when valuing assets
6. Are you aware of any guarantee contracts?	None
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None
8. Other than in house solicitors, can you provide details of those solicitors utilised by Buckinghamshire Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Constantine Cannon Solicitors (Truck Cartel) Sharpe Pritchard LLP (FCC Environment Dispute) Shakespeare Martineau (Red Kite Asbestos)

# General Enquiries of Management

Question	Management response
9. Have any of the Buckinghamshire Council service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Council engaged with a wide range of advisors through the year. For example Carter Jonas – Property Valuation, Arlingclose – Treasury, Barnett Waddingham – Actuaries, PSTax for VAT advice, etc.



# Fraud

## Issue

### 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 and Governance Committee and management. Management, with the oversight of the Audit and Governance 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 and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Buckinghamshire 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 and Governance 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 and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance 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 Buckinghamshire Council's management.

# Fraud risk assessment

Question	Management response
<p>1. Have Buckinghamshire 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 Buckinghamshire Council's risk management processes link to financial reporting?</p>	<p>Yes.</p> <p>A robust risk management framework is in place and embedded across the organisation with each directorate owning a tailored risk escalation framework. Risks are reported to Boards on a monthly basis, and the strategic risks are reported to CMT and Risk Management Group on a regular basis. Fraud risks are also considered as part of the internal audit planning work, and the fraud risk register informs the pro-active counter fraud plan.</p> <p>Key financial risks are identified and managed by each of the Heads of Finance, and are considered as part of the MTFP and budget monitoring processes.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Inherent risks within procurement, payments, council tax, housing benefits, housing tenancy, cyber crime, planning</p>

# Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Buckinghamshire Council as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Yes, a number of investigations have been completed and others are ongoing.</p> <p>Reporting to directorate boards, Corporate Management Team (CMT), Risk Management Group and Audit &amp; Governance Committee on a regular basis on key risks, fraud risks and internal audit activity.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Buckinghamshire Council's where fraud is more likely to occur?</p>	<p>Yes, we maintain a Fraud Risk Register where a number of specific fraud risks are identified along with mitigating actions.</p> <p>Yes, as noted in Q2, a number of areas are at risk of fraud, however controls are in place in mitigate the risk, and we regularly deliver fraud awareness messages/training to remind officers to be vigilant.</p> <p>Specific higher risk locations have not been identified.</p>
<p>5. What processes do Buckinghamshire Council have in place to identify and respond to risks of fraud?</p>	<p>The Anti-Fraud and Corruption Strategy is in place, as well as the Whistleblowing Policy with a confidential reporting phone line and email address for referrals.</p> <p>A Fraud Response Plan outlines the process for responding to the risks of fraud.</p> <p>A dedicated Investigations Team is in place who assess fraud risks on a regular basis and respond accordingly.</p> <p>Fraud risks are also considered as part of Internal Audit planning.</p>

# Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Buckinghamshire Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <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)?</p>	<p>We have an internal audit plan that is based on a risk based methodology takes into account the Council's priorities, strategic, operational and financial risks, as such the audit reviews and assurance work undertaken focuses on high risk areas. This work includes assessing the key financial systems and evaluating the controls in place, including segregation of duties. Due to Covid and Unitary, key financial assurance reviews have been conducted to highlight where internal controls may not be operating effectively within finance. Mitigation actions were provided for all control weaknesses identified and follow-up assurance work planned to ensure that actions have been embedded and are operating effectively. The internal controls have largely remained the same as these were embedded as part of the SAP processes that were already established.</p> <p>With regard to the controls to prevent, detect and deter fraud, we work closely with the fraud team to ensure that awareness sessions are presented to services. Audit engagements have no limitations therefore the scope of the review considers risk of fraud.</p> <p>From the work undertaken by Internal Audit we have found no areas that controls are/ can be overridden or evidence of inappropriate influence over the financial reporting process. All financial reports viewed as part of the audit work included scrutiny and reference to source data.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Controls in place should mitigate any risk of misreporting</p>

# Fraud risk assessment

Question	Management response
<p>8. How do Buckinghamshire 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?</p> <p>Have any significant issues been reported?</p>	<p>Staff Code of Conduct, Anti-Fraud and Corruption Strategy, Financial Procedure Rules, Contract Procedure Rules and IT policies in place which clearly state the expected behaviours and business processes for staff and contractors.</p> <p>A Whistleblowing Policy is in place with confidential reporting email address and phone line. This is published on the intranet.</p> <p>Staff are expected to raise any concerns relating to fraud or irregularities, we have a zero tolerance to fraud.</p> <p>We have had reports of procurement issues, contract management issues, school thefts, bullying and harassment concerns reported through the Whistleblowing process.</p>
<p>9. 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>Posts with ability to make payments</p> <p>Payroll posts</p> <p>Treasury Management</p> <p>Risks are identified and assessed through embedded risk management process. Key controls are in place and audited on regular basis to ensure risks are managed. Scheme of delegation and workflow controls embedded in SAP. Specific SAP roles only given to appropriate posts.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p> <p>Code of Conducts in place for employees and members, and process for declarations of interest in place and audited.</p>

# Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p> <p>How does the Audit and Governance 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 update on fraud investigations is presented to the Statutory Officers meeting on a monthly basis, and a summary reported to Audit &amp; Governance Committee meetings. A full report summarising all cases investigated during 2020/21 will be reported to the first meeting of Audit &amp; Governance Committee in 2021/22.</p> <p>The Audit and Governance Committee, through the Risk Management Group have regular oversight of the fraud risk register and mitigating actions. This year, due to the Covid-19 pandemic, a significant focus has been on the payment of business grants.</p> <p>A Business Assurance Strategy Update is reported to each of the Audit and Governance Committee meetings which includes a summary of the counter fraud activity.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Yes, the Whistleblowing process receives regular complaints, all of which are risk assessed and investigated if appropriate.</p> <p>We are in the process of implementing a new case management system, Clue, which will allow full management reporting and better oversight of cases. This system is very much needed given the size of the new Unitary authority.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>

# Law and regulations

## Issue

### 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 and Governance Committee, is responsible for ensuring that Buckinghamshire 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 and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information 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 Buckinghamshire Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Buckinghamshire Council's regulatory environment that may have a significant impact on the Buckinghamshire Council's financial statements?</p>	<p>Each report to CMT require sign off from the Monitoring Officer (MO) and requires the in-house legal team to have articulated the legal implications of the report – including reference to any relevant laws &amp; regulations.</p> <p>Legal officers are aware that if they are alerted to any Directorate non-compliance then they need to raise this with the Director of Legal &amp; Democratic Services and/or the MO.</p> <p>The Council has in place a comprehensive whistle-blowing policy..</p> <p>No.</p>
<p>2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Areas of non-compliance if they were significant/serious are escalated to the Risk Management Group. Audit Committee receives regular reporting assurance frameworks and compliance with key corporate controls.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Appropriate provisions have been made for all the potential litigation or claims</p>



## Impact of laws and regulations

Question	Management response
5. What arrangements does Buckinghamshire Council have in place to identify, evaluate and account for litigation or claims?	Legal Services has a detailed risk register which identifies and evaluates the most high-risk cases based on the council's risk criteria.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

# Related Parties

## Issue

### Matters in relation to Related Parties

Buckinghamshire Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Buckinghamshire Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Buckinghamshire 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 Buckinghamshire Council, or of any entity that is a related party of the Buckinghamshire 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 [type of body]'s perspective but material from a related party viewpoint then the Buckinghamshire 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 Buckinghamshire Council's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and Buckinghamshire Council whether Buckinghamshire Council has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>Not applicable as this is the first year for the Council preparing statement of accounts</p>
<p>2. What controls does Buckinghamshire Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A review of related party transactions and disclosure requirements forms part of the year end work to complete the accounts. For this Members and Senior Officers declarations, register of interest are key data that supports the audit working papers.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Any significant transactions and arrangements with related parties outside of the budgetary framework would require approval in line with the Constitution and Financial Regulations.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Any significant transactions outside of the normal course of business would be outside of the budgetary framework and therefore would require approval in line with the Constitution and Financial Regulations.</p>

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity'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 entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity'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
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?	Valuation of fixed assets Pension Liability and investments IAS19 Appeals Provision Impairment Allowances
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	Management considers assumptions made, availability of comparable data and materiality to identify and address risks relating to accounting estimates
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	For valuation of fixed assets and pensions , council uses specialist advice who complies with their respective professional standards, financial reporting standards and CIPFA code in their approach and assumptions.  Appeals provision is based on Analyse Local data and impairment allowances is based on type of debt, type of customer, stages of collection and also current economic climate
4. How do management review the outcomes of previous accounting estimates?	New Council so no previous outcomes to review. Going forward, the actual will be monitored against the accounting estimates
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	Not applicable as new council

# Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Materiality, complexity and professional knowledge and experience required for accounting estimates. The Accounts are prepared by professionally qualified accountants with experience and who are required to ensure that the Continuous Professional Development and training requirements are maintained.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	<p>Where specialist skills are required the contracting arrangements set out the assumptions, control activities and the format of the outputs required to enable an effective review and challenge process.</p> <p>Where controls are system driven then these are documented and reviewed for appropriateness, with management oversight providing a separate professional view and challenge that the controls have been actioned appropriately and therefore reliance can be placed on the figures</p>
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	<p>Engagement letter, firms registered with professional institutions and compliance with their standards, professionally qualified officers.</p> <p>We document the review and challenge oversight by senior management or experienced officers. This includes discussions with experts to understand the processes they have used and the reliability of the results.</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"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>Compliance with relevant financial reporting standards, review and challenge, engagement letters where professional advisors are used. Additionally we</p> <ul style="list-style-type: none"> <li>• Agree assumptions in advance, including their appropriateness</li> <li>• Verify underlying data in advance</li> <li>• Evaluate the appropriateness of the methodology to be used to determine the value of estimates</li> <li>• Review and challenge the results for reasonableness, including comparative analysis with previous year</li> <li>• Perform sensitivity of the results to the key assumptions to assess materiality</li> <li>• Senior management sign-off of the outcomes of the quality assurance process</li> </ul>

## Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of 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)?	No
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes, we believe the arrangements are reasonable as we quantify the financial impact of estimation and uncertainty.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Quantification of financial impact of estimation and uncertainty, Compliance with reporting standards, CIPFA code and where appropriate use of professional advisors

## Appendix A Accounting Estimates

**Note: this appendix must be included unless Those Charged with Governance consider the PSA significant judgements and estimates management response for each material estimate**

Estimate (Examples)	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	Depreciated Replacement Cost, Market Value, Economic Use Value	Current Value (Depreciated Replacement Cost (DRC)) in accordance with UK VPGA 1.5	Yes – Carter Jonas	n/a	No
Investment property valuations	Fair Value and Market Value	Fair Value (as defined under IFRS 13)	Yes – Carter Jonas	n/a	No
Depreciation	Remaining Useful Life of the Asset	Condition and age of the asset	Yes – Carter Jonas	Useful lives are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual asset	No



## Appendix A Accounting Estimates

Estimate [Examples]	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?
Valuation of defined benefit net pension fund liabilities	In compliance with IAS19 Projected Unit Method	Roll forward of the value for the funding valuation as at March 1 and assumptions in compliance with IAS19	Yes	n/a	No
Level 2 investments	Inputs other than quoted prices that are observable for the assets	Market data	Yes	n/a	No
Level 3 investments	Unobservable inputs	Professional experience	Yes	n/a	No
Fair value estimates	Maximise use of observable inputs and minimise the use of unobservable inputs	Market data	Yes	n/a	No

## Appendix A Accounting Estimates

Estimate [Examples]	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?
Provisions - Appeals	Analyse Local data used to estimate	Past experience	No	n/a	No
Accruals	Works done/ service received and actual invoice	Budget Monitoring and cut off	No	n/a	No
Credit loss and impairment allowances	Type of debt, type of customer, Age analysis, various stage in Debt collection process	Past experience and economic climate	No	The economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts.	No

## Appendix A Accounting Estimates (Continued)

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?
Finance lease liabilities	Net Present Value	Lease agreement	No	n/a	No



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