

Informing the audit risk assessment for Teignbridge District Council 2020/21

Julie Masci

Engagement Lead
T +44 (0)29 2034 7506
E julie.masci@uk.gt.com

Gail Turner-Radcliffe

Engagement Manager
T +44 (0)117 305 7546
E Gail.Turner-Radcliffe@uk.gt.com

Paige Tan

Engagement In-charge
T +44 (0)29 20347532
E paige.tan@uk.gt.com



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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Teignbridge District Council's external auditors and Teignbridge 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 Scrutiny 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 Scrutiny Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Scrutiny 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 Scrutiny Committee and supports the Audit Scrutiny 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 Teignbridge District 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 Teignbridge District Council's management. The Audit Scrutiny 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?	Covid 19. Further review of asset values and treatment of grants received.
2. Have you considered the appropriateness of the accounting policies adopted by Teignbridge District Council Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes. Nothing material requiring a change in accounting policies.
3. Is there any use of financial instruments, including derivatives?	No use of financial instruments. Our note on this remains similar to last year.
4. Are you aware of any significant transaction outside the normal course of business?	Only the extra work carried out in relation to Covid 19 and issuing grants, receiving funding for significant income losses etc.

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?	Nothing to date. We will carry out our normal checks via the Estates team and service managers.
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?	No change to our contingent liabilities note from last year.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Teignbridge District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Yes – a list will be provided at the end of the year when the ledger is closed. There are no known contingencies from previous years being worked on.

General Enquiries of Management

Question	Management response
<p>9. Have any of the Teignbridge 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?</p>	<p>None of the Council's service providers have reported any items of fraud, non compliance with laws and regulations, or uncorrected misstatements which would affect the financial statements.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>A list will be provided at the end of the year when the ledger is closed.</p>

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 Scrutiny 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 Scrutiny Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

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

Fraud risk assessment

Question	Management response
<p>1. Have Teignbridge 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 Teignbridge District Council's risk management processes link to financial reporting?</p>	<p>Yes. The risk of material misstatement due to undetected fraud is considered to be low.</p> <p>A fraud risk analysis is maintained for all Council services to ensure appropriate mitigations are in place; Management have overall responsibility for ensuring fraud risks are managed; proactive fraud detection exercises are undertaken such as data matching; we have a Counter Fraud and Compliance Officer – a dedicated post for Revenue counter fraud and Business Rates avoidance in the Revenues and Benefits team due to the likelihood of fraud in this area; an auditor was assigned to Covid Grant work; HR procedures require employees to be vetted; whistleblowing and anti-fraud policies exist; Financial Instructions are in place and systems are reconciled / exception reports are reviewed to highlight irregular transactions. Internal auditors review and test controls within financial systems; regular bank and control account reconciliations are undertaken by Finance staff.</p> <p>The key risks within core financial systems that feed into the financial statements are reviewed and tested by internal audit. A sensitivity and risk analysis of the Council's budget is undertaken and published with the budget papers. Quarterly budget monitoring reports are provided to the Executive, and monthly to Corporate Management Team to identify financial risks, and budget holders receive management accounts. The risk of making a mistake is mitigated by ensuring that the financial statements are prepared by professionally qualified and experienced accountants; data quality checks are carried out; and we subscribe to additional advisory services to ensure officers are kept informed of technical developments Reports to decision makers are vetted by the S.151 and Monitoring Officers to ensure financial implications and risks are considered.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>These are HB, Council Tax Support / Discount claims, Covid Grants and NDR avoidance. Treasury management transactions are highest value but are subject to very robust controls.</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 Teignbridge District 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>There are no material instances of fraud, error or irregularity identified during the year other than in the areas inherently susceptible to fraud risk, namely Council Tax Support and Discount, Benefit fraud. Some minor (non material) issues were detected in the Covid Grant Schemes.</p> <p>Risks are recorded in the corporate risk register and this is regularly reported to Strategic Leadership Team and the Audit Scrutiny Committee; the risk management report and includes fraud risk; full internal audit reports and quarterly summary of audits are also reported; and Better Governance Forum briefings on generic risks / emerging issues that may affect us are made available. A fraud risk analysis for the council is maintained and shared with the management team.</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 Teignbridge District Council where fraud is more likely to occur?</p>	<p>As in 3 above, the Fraud Risk Analysis identifies specific fraud risks and their mitigations.</p> <p>The areas typically with highest ongoing risk are Council Tax Support and Discount schemes and Benefits. A dedicated Counter Fraud and Compliance Officer is employed to help mitigate this along with routine verification of claims and data matching. DWP investigate Benefit fraud. Covid Grant Schemes continue to be monitored closely by internal audit due to inherent risk but actual instances of fraud/error have been low.</p> <p>There are no specific locations at higher risk – all outlying areas (namely leisure centres and our Teignbridge Services site) are subject to the corporate financial instructions and fraud risk controls.</p>
<p>5. What processes do Teignbridge District Council have in place to identify and respond to risks of fraud?</p>	<p>A fraud risk analysis is maintained for all Council services and mitigations for each risk are recorded; Management have overall responsibility for ensuring fraud risks are managed; proactive fraud detection exercises are undertaken such as data matching; Counter Fraud and Compliance Officer (as above); HR procedures require employees to be vetted; whistleblowing and anti-fraud policies exist; Financial Instructions are in place and systems are reconciled / exception reports are reviewed to highlight irregular transactions. Internal auditors review and test controls within financial systems; regular bank and control account reconciliations are undertaken by Finance staff. Internal Audit lead on the Cabinet Office NFI.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Teignbridge 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)?</p>	<p>Internal audit assess the quality of internal control and report outcomes to management and the Audit Scrutiny Committee. Internal audit reports provide assurance opinions for individual audits and the overall annual opinion comments on the effectiveness of governance, risk management and control. Self-assurance statements are sought from service managers, for confirmation that controls have operated effectively throughout the year. The Strategic Leadership Team (SLT) monitor this as part of the review of governance that informs the Council's Annual Governance Statement.</p> <p>Not applicable.</p> <p>See 5 above. Additionally, preventive controls are designed into systems to help stop fraud at the gateway for application processes. Detective controls are also designed in such as reconciliations, control account balancing, data matching, segregation of duties, and formal schemes of delegation and authorisation are in place for financial transactions.</p> <p>None. We are not aware of any conditions which would give rise to this. However, if override of controls was attempted, this should be picked up by compensating controls and other counter fraud measures as described. Qualified Accountants are bound by their code of ethics which would require them to highlight anything untoward.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>None. Again, not aware of any areas but regular monitoring/reconciliations/internal controls/audits should identify this were it to occur.</p>

Fraud risk assessment

Question	Management response
<p>8. How does Teignbridge 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?</p> <p>Have any significant issues been reported?</p>	<p>Expected standards are set out in various ways including: Council's Constitution; Code of Conduct; Financial Instructions; Contract Procedure Rules; Supplier Contracts; and Teignbridge Vision and Values Statement. Employees are required to avoid conflicts and declare personal interests or offers of gifts or hospitality. A protocol on member / officer relations exists and equalities policies are in place. Communication is ongoing through induction; via the intranet; staff handbook; day to day management; staff briefings, team meetings and 1-1's; and the staff newsletter.</p> <p>Anti Fraud and Corruption, and Whistleblowing policies exist, providing staff with various options to raise concerns. Staff involved in processing applications for services which have an inherent risk of fraud are trained to be alert to the risk of fraud in their daily processing activities. The policies in place encourage staff to raise any concerns and include a confidential reporting form if they wish to remain anonymous.</p> <p>No significant issues have been reported.</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>Senior officers potentially, due to their power to influence decisions and controls.</p> <p>They are required to declare any interests and must follow Codes of Conduct and the Constitution.</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>None known.</p> <p>Related party transactions or associations are identified from registers held in relation to Members and Officers. Conditions of contract are in place covering fraud risks.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Scrutiny Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>The Audit Plan and internal audit reports are provided to the Audit Scrutiny Committee – these include consideration of fraud controls. Strategic risks and mitigations including fraud are regularly reported to the Audit Scrutiny Committee. If any significant fraud were to occur this would be reported to members for scrutiny of lessons learned. An overview of National Fraud Initiative work is also reported.</p> <p>No significant fraud issues have been identified todate.</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>Only non-fraudulent matters have been raised.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No reports under the Bribery Act have been received.</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 Committee, is responsible for ensuring that Teignbridge 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 Scrutiny 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 Teignbridge 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 Teignbridge District Council's regulatory environment that may have a significant impact on the council's financial statements?</p>	<p>The Council's Monitoring Officer and Section 151 Officer (Chief Finance Officer) review decision making reports to ensure decisions are lawful, fair, and based on sound financial evidence. The Monitoring Officer is duty bound to advise members of any unlawfulness or maladministration. The Section 151 Officer is responsible for ensuring the lawfulness and financial prudence of decisions. These roles are formalised in the Council's Constitution. Heads of Service, Business Managers and Managers have managerial responsibility for ensuring that laws, regulations and organisational rules and policies are complied with through effective systems of internal control. Assurance statements are obtained from managers annually through the Annual Governance process to certify that the statutory obligations for the services they are responsible for, have been understood and fulfilled. No changes to the regulatory framework have had a significant impact on financial statements.</p>
<p>2. How is the Audit Scrutiny Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Internal Audit reports; annual assurance opinion; reports of other inspectorates and review bodies where appropriate; results of the annual governance review in which managers are required to certify that their statutory obligations have been fulfilled. Audit Manager and Chief Finance Officer regularly attend Audit Scrutiny Committee. Chief Finance Officer is responsible for preparing the financial statements in line with regulatory requirements.</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>None that we are aware of.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No material claims known. We will check again on 31.3.21.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does the Teignbridge District Council have in place to identify, evaluate and account for litigation or claims?	Legal department have a case management system which deals with all workload, claims etc. Evidence is drawn from this to identify potential claims and the likely value if applicable. External advice is sought where necessary. High risk claims are discussed at Strategic Leadership Team.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None that we are aware of in 2020-2021.

Related Parties

Issue

Matters in relation to Related Parties

Teignbridge District 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 Teignbridge District Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Teignbridge District 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 Teignbridge District Council or of any entity that is a related party of the Teignbridge District 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 Teignbridge District 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 Teignbridge 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 Teignbridge District Council • whether Teignbridge District Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>We are not aware of any changes at this point compared to the 2019/20 position but will complete our checks as part of the year end closedown.</p>
<p>2. What controls does Teignbridge District Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A register of member and officer interests is maintained and this is reviewed for materiality.</p> <p>The National Fraud Initiative results for creditor to payroll matches are also reviewed in this respect.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Robust procurement controls are operated with contract authorisation limits. The process applies to all commercial activity regardless of whether it involves related parties.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Not applicable. All financial transactions are within the scope of the Financial Instructions and Delegated Powers.</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 Scrutiny 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 Scrutiny 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?	The main estimates are in relation to bad debt provisions and business rates appeals.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	Estimates are based upon accounting knowledge, historical data, review of transactions or known events after the end of the financial year to determine the necessary calculations to provide the necessary provisions. Economic and environmental data is also considered.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Mathematical techniques including historical data, payments after the year end etc. as disclosed above.
4. How do management review the outcomes of previous accounting estimates?	As part of the ongoing monitoring of likely income from various sources.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	This is currently under review and will be considered in the light of the impact Covid 19 has had on collection of income and forecasts amended to also consider support from Government for part of these losses.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>The Chief Finance Officer is a member of Strategic Leadership Team (SLT). The Finance team has a significant number of staff qualified to Chartered or AAT standard including the Deputy CFO. Knowledge acquired as part of that training is applied to relevant areas together with any further training or developments provided by CIPFA in relation to specific areas e.g. appeals provision. Support is also provided by experienced external consultants.</p>
<p>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>	<p>The Chief Finance Officer considers these as part of their materiality assessment and also as part of dialogue with the Legal department in relation to any claims.</p> <p>Internal audit reports are considered where they report on any relevant control weaknesses.</p>
<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>	<p>By monthly reporting of financial data.</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>Reporting financial data to Strategic Leadership Team/Corporate Management Team/Executive/Audit Scrutiny and any challenge made on assumptions.</p> <p>Consideration and examination is also made within the Finance team to consider the robustness of estimates and challenged.</p> <p>Service managers provide updates if material on any significant developments and data provided from the recovery team.</p>

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)?	Recovery of debts from Covid 19 require consideration.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes.
12. How is the Audit Scrutiny Committee provided with assurance that the arrangements for accounting estimates are adequate ?	As part of the reporting process in relation to the accounts and accounting policies.

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	Use of internal qualified valuers.	Finance review any significant changes and challenge valuer.	Yes.	Valuers look at in terms of materiality, RICS and accounting guidance.	No.
Valuation of defined benefit net pension fund liabilities	Use of pension actuaries.	Spreadsheet completed/checked in relation to numbers before report produced.	Yes.	Assumptions provided by actuary and reviewed for reasonable based on data before actual report is produced.	No.
Accruals	Outstanding orders for expenditure outstanding/review of prepayments/accounts raised late for debtors and FMS indicators to attribute spends to correct financial year. Separate guidance to spending officers.	Orders/FMS indicators/ manual review of changes/large estimates etc.	No – all internal.	Agreed materiality based on accounting policies and review of ledger line by line for variances.	No.



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