

Question 16 – Cllr Jonathan Hucker

External Audit report

Material accounting estimates –

1. Do the auditors have a threshold for what is considered material in respect of accounting estimates?

Answer: We use our main financial statements materiality when considering estimates and whether estimates are materially correct. Depending on the nature of the accounting estimate, the risk of material misstatement could be affected by estimation uncertainty, complexity, subjectivity or other risk factors. Our audit procedures will be responsive to the assessed risk of material miss-statements.

2. Is there a more rigorous testing regime for non-recurring items such as ad-hoc provisions compared to recurring items such as the revaluation of existing assets?

Answer: On initial review of the financial statements we will identify any non-recurring items and where necessary depending on the nature and/or size of these will determine the appropriate audit approach to test these items. Depending on the items this may require a different approach to the approach used for recurring items. The level of testing / audit procedures on all recurring and non recurring items is determined following a risk assessment of the items. One particular area where the auditor is required to be alert to ad hoc risk is in regard to accounting journals, where our risk assessment and coverage is particularly focussed on those journals that could be considered non-routine and 'unusual'

3. I assume that some of the estimates included in the accounts are provided by third parties, such as actuaries or financial institutions. Where this is the case, are the estimates subject to independent testing and verification by the auditors?

Answer: Regardless of whether estimates are made by management or third parties on behalf of management we undertake specific audit procedures to gain assurance over the estimates. Note – where management use third parties, they still have overall responsibility for the estimates included within the financial statements. Where management have used a third party to provide estimates such as for pensions and property valuations, we undertake a number of additional audit procedures, some examples of these are documented below

- *evaluate the competence, capabilities and objectivity of the expert*
- *assess instructions to the expert by management*
- *challenge the information and assumptions used by the expert to assess completeness and consistency with our understanding*
- *we may engage an auditors expert to help us reach our conclusions on more complex and specialist estimates – in the past two years we have engaged a variety*

of internal (to Grant Thornton) and external (separate companies) auditor's experts, including business and investment valuation specialists, property valuers, financial instrument specialists and business disposal and restructuring professionals.