



Informing the audit risk assessment for Moray IJB 2022/23

Angela Pieri
Director
T 0161 214 6337
E Angela.L.Pieri@uk.gt.com

Hannah McKellar
Manager
T 0131 659 8569
E Hannah.L.McKellar@uk.gt.com



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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Moray IJB's external auditors and Moray IJB's Audit, Performance and Risk 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, Performance and Risk Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the Audit, Performance and Risk 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, Performance and Risk Committee and supports Audit, Performance and Risk 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 Authority'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 Moray IJB's management. The Audit, Performance and Risk 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 2022/23?	Clawback/ repayment of ear marked reserves brought forward by Scottish Government
2. Have you considered the appropriateness of the accounting policies adopted by Moray IJB? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	Accounting Policies are reviewed each year as the Accounts are prepared and changes incorporated where deemed necessary. No changes to accounting policies are anticipated for the 2022/23 accounts
3. Is there any use of financial instruments, including derivatives? If so, please explain	No
4. Are you aware of any significant transactions outside the normal course of business? If so, what are they?	Not aware of any significant transactions

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?	N/A
6. Are you aware of any guarantee contracts? If so, please provide further details	N/A
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	N/A
8. Other than in house solicitors, can you provide details of those solicitors utilised by Moray IJB during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Brodiess solicitors for the scheme of integration update

General Enquiries of Management

Question	Management response
9. Have any of the Moray IJB'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	Not aware of any instances of fraud
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	KPMG for audit on Commissioning service
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	N/A

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

As Moray IJB'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, Performance and Risk 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, Performance and Risk Committee oversees the above processes. We are also required to make inquiries of both management and the Audit, Performance and Risk 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 Moray IJB's management.

Fraud risk assessment

Question	Management response
<p>1. Has Moray IJB 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 Moray IJB's risk management processes link to financial reporting?</p>	<p>The MIJB has established risk management, governance and operating procedures to mitigate the risk of material misstatement in the financial statements.</p> <p>Agreed arrangements within the NHS for the investigation of fraud. In regard to the Council, Financial Regulations detail that all staff irregularities should be reported to the Audit and Risk Manager.(MIJB Chief Internal Auditor). This is supported by the Policy to Combat Fraud, Theft, Bribery and Corruption and the Whistleblowing Policy. In addition, the Council participates in the National Fraud Initiative data matching exercise and also publicises a point of contact to report fraud or irregularities involving the misuse of council resources. All irregularities and system reviews will be reported to the Audit, Performance and Risk Committee.</p> <p>The corporate risk register detailing the MIJB's principal risks are regularly reviewed by SMT, with an annual report provided to MIJB Board. Services are also required to maintain risk registers detailing identifiable risks and mitigating actions/controls. In addition, the Chief Internal Auditor (MIJB) also prepares a risk-based audit plan that considers the IJB's strategic objectives, associated risks and senior management's view.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Risk registers are also maintained by the parent organisations. Internal Audit will also review and test transactions to ensure compliance with Council Regulations and Procedures. The use of IDEA, a computer assisted software system is used to analyse and select a sample for testing.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Moray IJB as a whole, or within specific</p>	<p>No irregularity known below the £5000 reporting threshold</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>Both the NHS and the Council have their own regulations regarding fraud. The NHS Counter Fraud Authority (NHSCFA) is a health authority charged with identifying, investigating and preventing fraud and other economic crimes within the NHS and the wider health group. The Council's Financial Regulations require that all irregularities be reported to the Audit and Risk Manager. The Audit and Risk Manager is also responsible for supporting the Council's risk management arrangements which includes regularly reviewing the principal risks facing the Council.</p> <p>Principal risks facing the MIJB are reviewed regularly by SMT and the corporate risk register is the accordingly updated</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 Moray IJB where fraud is more likely to occur?</p>	<p>Yes. Specific concerns have been raised regarding the threat of a successful cyber attack, resulting in a report to the Audit, Risk and Performance Committee with recommendations to improve existing controls. As part of the risk-based approach to preparing the Annual Audit Plan the Chief Internal Auditor of the MIJB will consider fraud risks in determining the reviews to be undertaken. However, this only relates to Council funded services.</p>
<p>6. What processes do Moray IJB have in place to identify and respond to risks of fraud?</p>	<p>The NHS Counter Fraud Authority (NHSCFA) is responsible for identifying, investigating and preventing fraud within the NHS.</p> <p>The Council Financial Regulations detail that irregularities should be reported to the Audit and Risk Manager. This is supported by the Policy to Combat Fraud, Theft, Bribery and Corruption and the Whistleblowing Policy. In addition, the Council participates in the National Fraud Initiative data matching exercise and also publicises a point of contact to report fraud or irregularities involving the misuse of council</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Moray IJB, 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>The responsibility for developing and maintaining sound control environment rests with management. However, internal audit prepares a risk based audit plan which considers the MIJB's strategic objectives and associated risks. While the prevention of fraud and error rests with management through the design and operation of suitable systems of control, reviews undertaken by Internal Audit will make recommendations to improve the control environment.</p> <p>All officers are required to adhere to agreed policies and regulations.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>None noted</p>

Fraud risk assessment

Question	Management response
<p>9. How does Moray IJB communicate and encourage ethical behaviours and business processes of its 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>Established arrangements exist to communicate and encourage ethical behaviours and business processes of its staff and contractors. Managers have an ongoing responsibility for implementing effective systems of control which secure the legitimacy of expenditure, the safeguarding of assets and income, the reliability of management information, the accuracy of record keeping and compliance with statutory guidance. They are also responsible for communicating this policy to their staff and ensuring established systems are followed.</p> <p>As detailed, the NHS Counter Fraud Authority (NHSCFA) is responsible for identifying, investigating and preventing fraud and other economic crimes within the NHS and the wider health group. The Council has a Policy to Combat Fraud, Theft, Bribery and Corruption. This policy is built around a counter fraud culture supported by practices to deter and detect fraudulent and corrupt activities. It takes account of the Council's statutory obligations, including, and in particular, the provisions of the Bribery Act 2010. Council Financial Regulations detail that all irregularities should be reported to the Audit and Risk Manager. In addition, a Confidential 'whistle blowing' policy and procedure is in place, enabling employees to raise any concerns about any aspect of the Council's work without fear of victimisation, subsequent discrimination or disadvantage, and in the knowledge that such concerns will be properly investigated</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>There is an expectation that all staff and elected board members will act within the law and with honesty and integrity at all times. In particular, all staff and elected board members are expected to refrain from engaging in fraudulent or corrupt activity of any kind and shall refrain from offering, making or accepting bribes, whether financial or otherwise.</p> <p>Governance standards promote values and behaviours for the MIJB that demonstrate how it will uphold good practice and high standards of conduct. These include codes of conduct for both elected board members and employees and reflect the principles of public life identified by the Nolan Committee, including selflessness, honesty and integrity. This also takes in the Duty (Public Service) and Respect principles added by the Scottish Government.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit, Performance and Risk Committee?</p> <p>How does the Audit, Performance and Risk 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>The Public Sector Internal Audit Standards (PSIAS) applicable to Local Government in Scotland requires Internal Audit to report functionally to the Audit, Performance and Risk Committee on various issues relative to the work of the Internal Audit Service, including special investigations.</p> <p>The Audit, Performance and Risk Committee has a remit which includes ensuring that the highest standards of probity and public accountability are demonstrated. This involves oversight of internal control processes as a contribution to good governance and generally supporting an anti-fraud, theft, corruption, and bribery culture. This Committee considers reports produced by Internal and External Audit on the IJB's systems; reports which include recommendations to strengthen internal controls and in turn reduce the risk of fraud and related behaviours going undetected.</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>None noted</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>None noted</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, Performance and Risk Committee, is responsible for ensuring that Moray IJB'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, Performance and Risk 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 Moray IJB have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>Generally speaking each service area are familiar with the statutory regime in which they operate and will keep up to speed with developments through their professional associations such as CIPFA or SOLAR.</p> <p>Changes to legislation, consultations and guidance are notified to the IJB by the Scottish Government and are distributed to the relevant departmental area.</p> <p>The legal section has teams which specialise in different areas of Council activity and will be involved (at the request of client departments) in the implementation of more complex changes (such as formation of the IJB) and in any areas where legislation is unclear.</p> <p>Legal compliance will often be subject to external regulation (for example data protection).</p> <p>The IJB's Integration Scheme (detailing the powers given to officers to implement services under specified legislation) is reviewed annually in line with revised legislative powers, in consultation with client departments.</p>
<p>2. How is the Audit, Performance and Risk Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Overview of committee reports undertaken by Legal Services</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>Not aware of any instances</p>
<p>4. Are there any actual or potential litigation or claims that</p>	

Impact of laws and regulations

Question	Management response
5. What arrangements does Moray IJB have in place to identify, evaluate and account for litigation or claims?	The legal section has teams which specialise in different areas of activity and will be involved (at the request of client departments) in the implementation of more complex changes (such as formation of the MIJB) and in any areas where legislation is unclear. Where necessary external advice will be sought
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	None known

Related Parties

Matters in relation to Related Parties

Moray IJB 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 Moray IJB;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Authority;
- 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 Authority, or of any body that is a related party of the Authority.

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 Authority's perspective but material from a related party viewpoint then the Authority 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 Moray IJB's 2021/22 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Moray IJB • whether Moray IJB has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>No changes</p>
<p>2. What controls does Moray IJB have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Senior Officers and Elected Board Members make annual returns and members interests are regularly updated on the website, any significant factors that arise as part of this process would be factored into the Related Parties Note in the Annual Accounts.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Normal procedures following the parties authorisation policies would apply – transactions over agreed limits are checked by Chief Financial Officer or Director of finance</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>For significant transactions that are new and outside the normal course of business IJB Board approval is required.</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 central 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 wider scope and best value 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 Moray IJB will no longer continue?</p>	<p>Regular reporting on the IJB's Finances would highlight any conditions which may mean the MIJB is no longer to deliver statutory duties. Regular performance reports would also highlight this</p>
<p>2. Are management aware of any factors which may mean for Moray IJB 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>Not aware of any</p>
<p>3. With regard to the statutory services currently provided by Moray IJB, does Moray IJB 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 Moray IJB to cease to exist?</p>	<p>The MIJB would expect to continue to deliver statutory services</p>
<p>4. Are management satisfied that the financial reporting framework permits Moray IJB 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>The annual accounts are prepared on a going concern basis and this will provide a faithful representation of the items included in the financial statements</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, Performance and Risk 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, Performance and Risk 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?	None directly but the value of the pension liability from partner organisations would have implications
2. How does the Authority's risk management process identify and address risks relating to accounting estimates?	Managed by the partner organisations
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The results of prior year audits are looked at to see whether there was any material concerns raised or amendments made
4. How do management review the outcomes of previous accounting estimates?	As above
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	No changes

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Each area is looked at in isolation and the relevant skills/knowledge/capacity considered
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?	Ensuring that relevant information is provided on time and accurately to ensure that the information received can be relied upon.
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?	Regular updates provided by preparers of the Accounts on any issues that arise
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <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. 	The unaudited accounts are reported to Committee and then again upon completion of the audit. External Audit reporting also helps to inform on estimates.

Accounting Estimates - General Enquiries of Management

Question	Management response
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?	Not aware of any
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	No major changes required to annual accounts in previous years
12. How is the Audit, Performance and Risk Committee provided with assurance that the arrangements for accounting estimates are adequate?	Annual accounts are reported

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?
Valuation of defined benefit net pension fund liabilities	Based on information from actuaries	Information provided to actuaries based on year end position reducing the need for use of estimates.	Yes	Disclosure in accounts regarding the changes that could happen and the impact it would have on the figures included in the accounts	No
Accruals	Based on actual entries in the ledger, or on information received from departments		No	In most cases based on actual ledger entries so no estimation . Where estimates are provided we know it will be based on professional judgement and we would query it it was materially different from estimates provided	No
Accrued income	Based on actual entries in the ledger, or on information received from departments		No	In most cases based on actual ledger entries so no estimation . Where estimates are provided we know it will be based on professional judgement and we would query it it was materially different from estimates provided	No



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