



AUDIT AND STANDARDS COMMITTEE

ROOMS 2 & 3, TOWN HALL

Thursday, 27th July, 2023 at 6.30 pm

SUPPLEMENTARY AGENDA

- a) *Informing the Audit Risk Assessment for BBC 2022/23*

3 - 28

To consider an additional item of business, as agreed by the Chair.

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Informing the audit risk assessment for Burnley Borough Council

2022/23

Page 3

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Agenda Item 8a

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

Table of Contents

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

Purpose

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

Background

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

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

Communication

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

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

Purpose

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

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?	The ongoing impact of Covid-19 and the cost of living crisis on asset valuations , pension fund valuations, business rates appeals and provisions for bad debts.
2. Have you considered the appropriateness of the accounting policies adopted by Burnley Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	The appropriateness of the accounting policies adopted have been considered and were reported to Audit and Standards Committee in March 2023. We have not identified any events or transactions which have caused us to change or adopt new accounting policies.
3. Is there any use of financial instruments, including derivatives? If so, please explain	The council has not used any financial instruments in year, including derivatives.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	Management is not aware of any significant transaction 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? If so, what are they?	Management is not aware of any changes in circumstances that would lead to the impairment of non-current assets.
6. Are you aware of any guarantee contracts? If so, please provide further details	Management is not aware of any guarantee contracts.
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	Management is not aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Burnley Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Solicitors used listed below. None were in respect of open litigation or contingencies from previous years: Wilkin Chapman LLP Solicitors (Debtors) Trowers and Hamlins Solicitors (HRA advice) Geldards LLP (Charter Walk) Bevan Brittan LLP (Professional Advice) Cornerstone Barristers (Compulsory Purchase Order) Miss Constanze Bell - Kings Chambers (Planning Advice)

General Enquiries of Management

Question	Management response
9. Have any of the Burnley Borough Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	Management is not aware of any reports.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Pioneer Place: DAC Beachcroft Maple Grove Consultancy Mace Cost Consultancy
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	No assets have been identified.

Fraud

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

Question	Management response
<p>1. Has Burnley Borough Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The risk of fraud to the Council is considered in an annual report to the Audit and Standards Committee (January 2023). This covers the major and emerging risks and the actions that the Council takes to treat these risks.</p> <p>The Council's Strategic Risk Register was reported to Audit and Standards Committee in March and September 2022. The risk register has been reviewed to include the cost of living.</p> <p>Management's view as a result of this is that there is no material risk of fraud in the financial statements.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Council Tax Rebate grants</p> <p>Council Tax</p> <p>Business Rates</p> <p>Fuel Vouchers (scheme funded by LCC but overseen by BBC)</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Burnley Borough Council as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>Fraudulent transactions relating to the Fuel Voucher scheme – estimated costs £1,700.</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>An annual fraud risk report is reported to the Audit and Standards Committee.</p> <p>Internal Audit investigated frauds are reported to Audit and Standards Committee as are the outcome of the NFI exercise.</p> <p>The Council works with NAFN & NFI around identifying potential/suspected frauds regarding business grants.</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 Burnley Borough Council where fraud is more likely to occur?</p>	<p>Management has not identified any specific fraud risks, nor does it have concerns that there are any areas that are at risk of fraud.</p> <p>The Council works with NAFN & NFI around identifying potential/suspected frauds regarding business grants.</p> <p>Management is not aware of any locations within Burnley Council where fraud is more likely to occur.</p>
<p>6. What processes do Burnley Borough Council have in place to identify and respond to risks of fraud?</p>	<p>The Council promotes authority wide Values – TEAM. Codes of conduct are in place which apply to our employees and to our strategic partner. Declarations of interests are kept up to date with an annual reminder.</p> <p>The Council works with NAFN & NFI around identifying potential/suspected frauds regarding business grants.</p> <p>We operate a whistleblowing policy which has been reviewed. Fraud awareness e-learning is available to all staff. No significant issues have been reported.</p> <p>The Council has processes to counter-fraud in various systems – separation of duties,</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Burnley Borough Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Internal Audit complete an annual plan of audits. The annual governance statement gathers internal control effectiveness assurance from across the organisation. These are comprehensive.</p> <p>N/A</p> <p>There are the Council wide Values – TEAM. There are codes of conduct which apply to our employees and to our strategic partner. Declarations of interests are kept up to date with an annual reminder. We also operate a whistleblowing policy which has been reviewed. Fraud awareness e-learning is available to all staff. No significant issues have been reported.</p> <p>The Council is not aware of any areas or undue pressure which can result in the override of controls or inappropriate influence over financial reporting.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Burnley Borough Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>There are the Council wide Values – TEAM. There are codes of conduct which apply to our employees and to our strategic partner. Declarations of interests kept up to date with an annual reminder.</p> <p>We operate a whistleblowing policy which has been reviewed. Fraud awareness e-learning is available to all staff.</p> <p>No significant issues have been reported.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>High risk posts include those officer involved in the administration of grants, the procurement of goods & services and those within local taxation.</p> <p>Controls such as separation of duties, supervision and authorisation help to mitigate the risk. All employees are required to complete a declaration of interest, which are kept up to date with an annual reminder.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Management is not aware of any such relationships.</p> <p>The council follows the transparency arrangements for interests, payments and contracts. We have policies and procedures for instances of such conflicts of interest and gifts and hospitality.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>An annual fraud risk report is reported to the Audit and Standards Committee.</p> <p>Internal Audit investigated frauds are reported to the committee as are the outcome of the NFI exercise.</p> <p>None identified.</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>Management is not aware of any whistle blowing potential or complaints by potential whistle blowers.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

Law and regulations

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Burnley Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>We have a Monitoring Officer in place to consider the legality of decisions. We have professionally qualified accountants, legal officers and other professionals who review decisions.</p> <p>We ensure that employees are suitably qualified or have access to professional and specialist advisors. Management is responsible to ensure that all policies, procedures and systems are in line with laws, regulations and standards. There is assurance from reviews by internal and external sources to check compliance.</p> <p>We are not aware of any changes to the Authority's regulatory environment.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Annual Governance Statement process provides assurance from Heads of Service.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1st April 2021 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>No.</p>

Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Burnley Borough Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>We have a Monitoring Officer in place to consider the legality of decisions. We have professionally qualified accountants, legal officers and other professionals who review decisions.</p> <p>We ensure that employees are suitability qualified or have access to professional and specialist advisors.</p>
<p>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</p>	<p>No.</p>

Page 10

Related Parties

Matters in relation to Related Parties

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

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

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

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

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Burnley Borough Council's 2021/22 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Burnley Borough Council whether Burnley Borough Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>There have not been any changes in related parties.</p>
<p>2. What controls does Burnley Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Officers and Members are required to complete and maintain a declaration of interest. Members declarations are a public register. The Council also has Codes of Conduct that requires both Members and Officers to declare potential conflicts of interest and to avoid involvement in any related party decisions where there is a potential conflict of interest.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Separation of duties, authorisation and supervision controls are in place.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Separation of duties, authorisation and supervision controls are in place.</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 of accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

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

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

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Burnley Borough Council will no longer continue?</p>	<p>The Council has the following controls in place:</p> <ul style="list-style-type: none"> • Regular meetings between FBPs and Budget Holders to inform the budget monitoring process. Budget monitoring reports are reported quarterly to the Executive and Full Council. • Preparation of the 4 year MTFS which is reported to the Executive and Full Council as well as a mid year update. The MTFS assumes various funding assumptions to estimate the potential future budget gap. The Council continually updates its assumptions regarding funding from Central Government in its Medium Term Financial Strategy to reflect any intelligence received from various sources, including MHCLG, LGA, CIPFA etc. This enables the MTFS to be adjusted to provide an up-to-date budget gap assessment. • Preparation of the Annual TMS which is reported to the Executive and Full Council as well as a mid year update and outturn report. • The formulation of a balanced budget over the longer term requires the delivery of savings through strategic prioritisation, service transformation and continuous improvement. • The Council has a strong track record of delivering efficiency savings over recent years and this work will need to continue for the foreseeable future. • Attendance at sector specific webinars/seminars to keep abreast of potential events/conditions which may impact on the ability to provide statutory services. • Review of income/expenditure during budget setting to ensure that they are reliably estimated. Population changes and demand for services are kept under review through in year budget monitoring. • The Council will continue to use the commercial strategy which sets a framework for developing a commercial approach by everyone within and representing the Council.
<p>2. Are management aware of any factors which may mean for Burnley Borough Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are</p>	<p>Management is not aware of any factors.</p>

Accounting estimates

Matters in relation to accounting estimates

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

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

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

Specifically do Audit Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
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 have been identified
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	<p>The Council's Risk Management working group meets quarterly. The S151 chairs the working group and therefore any risk relating to accounting estimates are identified at the working group. Regular risk management reports are taken to Audit & Standards Committee.</p> <p>We ensure that employees are suitability qualified or have access to professional and specialist advisors.</p>
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>We ensure that employees are suitability qualified or have access to professional and specialist advisors. Management is responsible to ensure that all policies, procedures and systems are in line with laws, regulations and standards. There is assurance from reviews by internal and external sources to check compliance.</p>
4. How do management review the outcomes of previous accounting estimates?	<p>Accounting estimates are reviewed annually as part of the annual closedown of the Statement of Accounts. We ensure that employees are suitability qualified or have access to professional and specialist advisors and that all policies, procedures and systems are in line with laws, regulations and standards.</p>
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No changes were made in 2022/23.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Management ensures that employees are suitably qualified or have access to professional and specialist advisors.</p>
<p>7. How does the council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>We ensure that employees are suitably qualified or have access to professional and specialist advisors. Management is responsible to ensure that all policies, procedures and systems are in line with laws, regulations and standards. There is assurance from reviews by internal and external sources to check compliance.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Regular partnership meetings are held with service providers, for example, Charter Walk, Liberata etc. to ensure that the key controls identified in the SLA (and subsequently) are in operation and are performing effectively. We ensure that employees who sit on the partnership meetings are suitably qualified or have access to professional and specialist advisors. Management is responsible to ensure that all policies, procedures and systems are in line with laws, regulations and standards. There is assurance from reviews by internal and external sources to check compliance.</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>We ensure that employees involved in the governance and oversight of accounting estimates are suitably qualified or have access to professional and specialist advisors as required. Management is responsible to ensure that all policies, procedures and systems are in line with laws, regulations and standards. There is assurance from reviews by internal and external sources to check compliance.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?</p>	<p>Management are not 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 reported in the Accounting Estimates questionnaire).</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>Management ensure that employees are suitability qualified or have access to professional and specialist advisors.</p>
<p>12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>We ensure that employees are suitability qualified or have access to professional and specialist advisors.</p>

Page 27

