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# Informing the audit risk assessment for West Midlands Fire and Rescue Authority 2019/20

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# Table of Contents

<b>Section</b>	<b>Page</b>
Purpose	4
General Enquiries of Management	6
Fraud	7
Fraud Risk Assessment	8
Laws and Regulations	13
Impact of Laws and Regulations	14
Going Concern	16
Going Concern Considerations	17
Related Parties	21
Accounting Estimates	23
Appendix A Accounting Estimates	25

## Purpose

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

## Background

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

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

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

# General Enquiries of Management

## Purpose

This section includes a series of questions which we have posed and the response we have received from the Authority's management.

The Audit 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 2019/20?	Pensions – McCloud / Sargant remedy hearing outcome.
2. Have you considered the appropriateness of the accounting policies adopted by the Authority?	Yes – Accounting policies are reviewed annually
3. Have there been any events or transactions that may cause you to change or adopt new accounting policies?	None Known
4. Is there any use of financial instruments, including derivatives?	None Known
5. Are you aware of any significant transaction outside the normal course of business?	None Known
6. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None Known

## General Enquiries of Management

Question	Management response
7. Are you aware of any guarantee contracts?	None Known
8. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None Known
9. Other than in house solicitors, can you provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Authority's legal services are provided by the Monitoring Officer and Sandwell (MBC) Legal Services. Any specific specialist legal advice is obtained from external professional legal firms.
10. Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None Known
11. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Pensions – West Midlands Pension Fund & Government Actuaries Department Asset Valuations – Sandwell MBC & Wilks Head & Eve Clinical / Medical Governance – Andrew Thurgood



# Fraud

## Issue

### Matters in relation to fraud

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

The primary responsibility to prevent and detect fraud rests with both the Audit and Risk Committee and management. Management, with the oversight of the Audit 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 and Risk Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

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

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

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and 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 and Risk Committee oversees the above processes. We are also required to make inquiries of both management and the Audit 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 the Authority's management.



## Fraud risk assessment

Question	Management response
1. Have the Authority assessed the risk of material misstatement in the financial statements due to fraud?	Although there is an on-going risk of fraud being committed against the Authority, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on overall fraud risk areas. However, the risk of material misstatement of the accounts due to undetected fraud is considered to be low.
2. How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?	The Authority has a Anti Fraud & Corruption standing order in place. This is also supported by a Whistleblowing Policy which includes a confidential reporting framework; these are reviewed in a timely manner. Internal Audit include fraud risks in their planning process and act as an effective internal control against fraud. Regular reports are made to Audit and Risk Committee. In addition, the Authority receives advice from the Audit Fraud Team at Sandwell Metropolitan Borough Council.
3. How do the Authority's risk management processes link to financial reporting?	Regular monthly monitoring of finances are reported to the Strategic Enabling Team (SET). Monitoring of Finances report at the Fire Authority meeting. Internal Audit provide an update of their work to the Audit & Risk Committee.
4. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	None Known
5. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Authority as a whole or within specific departments since 1 April 2019?	There are no known instances of fraud that have been identified during the year.
6. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Internal and External Audit reports to the Audit and Risk Committee

# Fraud risk assessment

Question	Management response
7. Have you identified any specific fraud risks?	None known. Head of Internal Audit Opinion in 2018/19 did not highlight any weaknesses
8. Do you have any concerns there are areas that are at risk of fraud?	No Specific concerns. Head of Internal Audit Opinion in 2018/19 did not highlight any weaknesses
9. Are there particular locations within the Authority where fraud is more likely to occur?	None known. Head of Internal Audit Opinion in 2018/19 did not highlight any weaknesses
10. What processes do the Authority have in place to identify and respond to risks of fraud?	The Authority has a Anti Fraud & Corruption standing order in place. This is also supported by a Whistleblowing Policy which includes a confidential reporting framework; these are reviewed in a timely manner. Internal Audit include fraud risks in their planning process and act as an effective internal control against fraud. Regular reports are made to Audit and Risk Committee. In addition, the Authority receives advice from the Audit Fraud Team at Sandwell Metropolitan Borough Council.
<p>11. How would you assess the overall control environment for the Authority, including:</p> <ul style="list-style-type: none"> <li>• the process for reviewing the effectiveness the system of internal control; and</li> <li>• internal controls, including segregation of duties exist and are working effectively?</li> </ul> <p>If not where are the risk areas and what mitigating actions have been taken?</p>	There are adequate processes in place for reviewing the system of internal control via the work of Internal Audit. Internal Audit include fraud risks in their planning process and act as an effective internal control against fraud.

# Fraud risk assessment

Question	Management response
12. What other controls are in place to help prevent, deter or detect fraud?	Financial Regulations Anti fraud and corruption standing order Internal controls and segregation of duties
13. 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)?	None known. Head of Internal Audit Opinion in 2018/19 did not highlight any weaknesses in this area.
14. Are there any areas where there is potential for misreporting?	None known.
15. How do the Authority communicate and encourage ethical behaviours and business processes of it's staff and contractors?  How do you encourage staff to report their concerns about fraud?  What concerns are staff expected to report about fraud? Have any significant issues been reported?	There is an Employee Code of Conduct and Financial Regulations. Staff are regularly reminded of these.  There is a Anti Fraud & Corruption standing order in place and a Whistleblowing procedure in place which explain the procedures to follow. No significant issues have been reported under the Bribery Act  No issues of significant fraud have been reported.
16. From a fraud and corruption perspective, what are considered to be high-risk posts?  How are the risks relating to these posts identified, assessed and managed?	Posts within Financial Management and Revenues  Compliance with Financial Regulations and Standing Orders Internal Audit Reports Segregation of duties



## Fraud risk assessment

Question	Management response
<p>17. 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>The 2018/19 financial statement disclosure of related party transactions does not identify potential fraud risk. Members and officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Authority and Committee meetings.</p>
<p>18. What arrangements are in place to report fraud issues and risks to the Audit and Risk Committee?</p> <p>How does the Audit 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>Internal Audit include fraud risks in their planning process and act as an effective internal control against fraud. Regular reports are made to Audit and Risk Committee.</p>

## Fraud risk assessment

Question	Management response
19. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	Audit & Risk Committee – 3 June 2019 “Monitoring Policies on Raising Concerns at Work – Whistle Blowing Standing Order 2/20 and Regulation of Investigatory Power Act 2000” reported that there were no allegations of whistle blowing
20. Have any reports been made under the Bribery Act?	There are no known instances that have been identified during the year.

# Law and regulations

## Issue

### Matters in relation to laws and regulations

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

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

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Risk 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 the Authority 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>The Monitoring Officer is responsible for ensuring the Authority is compliant with laws and regulations. These responsibilities cover:</p> <ul style="list-style-type: none"> <li>•complying with the law of the land (including any relevant Codes of Conduct);</li> <li>•complying with any General Guidance issued, from time to time, by the Standards Committee and / or advice of the Monitoring Officer;</li> <li>•making lawful and proportionate decisions; and</li> <li>•generally, not taking action that would bring the Authority, their offices or professions into disrepute.</li> </ul> <p>This officer has access to all Authority Committee reports. The Monitoring Officer raises awareness on legal requirements at meeting where needed. In addition in terms of any specific legal issues the Monitoring Officer would get involved at an early stage. Further information on how the Monitoring Officer carries out these responsibilities are detailed in the Constitution.</p> <p>The Strategic Enabler of Finance &amp; Resources, the Authority's s151 officer is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements.</p> <p>The Senior Financial Accountant also attends the West Midlands Support Group for Financial Matters to exchange information, share best practice and discuss the implementation of relevant changes. This is supplemented by the annual technical accounting workshops run by CIPFA and also by Grant Thornton.</p>
<p>2. How is the Audit and Risk Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>See response above</p>

## Impact of laws and regulations

Question	Management response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	None noted
4. Is there any actual or potential litigation or claims that would affect the financial statements?	None noted



## Impact of laws and regulations

Question	Management response
5. How does management gain assurance that all relevant laws and regulations have been complied with?	See response to 1 above
6. What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?	See response to 1 above
7. Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?	None noted
8. How is the Audit and Risk Committee provided with assurance that all relevant laws and regulations have been complied with?	See response to 1 above
9. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	None noted

## Impact of laws and regulations

Question	Management response
10. Is there any actual or potential litigation or claims that would affect the financial statements?	None noted
11. What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	See response to 1 above
12. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None noted

# Going Concern

## Issue

### Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

## Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Authority? What was the outcome of that assessment?</p>	<p>The Authority's latest Medium-Term Financial Strategy indicates a balanced position. The budget report also highlighted a number of issues which could influence future core funding, and budget pressures which the Authority would need to consider and monitor progress. The Authority has appropriate levels of reserves to support the MTFs. This strategy, as well as the in-year budget (2018/19) reflects government changes in terms of core funding and the financial settlement. The 2020/21 budget was approved by the Authority on 17/02/2020.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Authority's Business Plan and the financial information provided to the Authority throughout the year?</p>	<p>The Medium-Term Financial Strategy sets out detailed assumptions and makes clear reference to the Authority Plan as the basis for the financial considerations in setting the medium-term budget. The MTFP has been prepared by appropriately qualified and experienced staff in consultation with Service Managers. The financial assumptions are therefore consistent with the Authority Plan. Monitoring of Finances are reported to Members of the Fire Authority throughout the year.</p>
<p>3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p>Yes, see response above.</p>

## Going concern considerations

Question	Management response
<p>4. Have there been any significant issues raised with the Audit and Risk Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	<p>The Authority's latest Medium Term Financial Strategy and 2020/21 budget reflect government changes in terms of the indicated core funding and the financial settlement.</p>
<p>5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?</p>	<p>Review of the latest detailed financial information presented to Authority members (as at January 2020) did not highlight any adverse financial indicators which required specific action. A Treasury Management Strategy is approved by the Authority as part of the budget setting report.</p>

## Going concern considerations

Question	Management response
<p>6. Does the Authority have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Authority's objectives? If not, what action is being taken to obtain those skills?</p>	<p>It is considered that the Authority has the appropriate skills and expertise within its Senior Management Team to enable it to address the financial challenges faced in the medium term. Succession planning is in place for any changes planned for 2020/21.</p>
<p>7. Does the Authority have procedures in place to assess their ability to continue as a going concern?</p>	<p>The Authority publishes its annual "Our Plan" which is supported by the MTFP. It has an established reporting procedure and timetable to Members of the Authority.</p>
<p>8. Is management aware of the existence of events or conditions that may cast doubt on the Authority's ability to continue as a going concern?</p>	<p>Management continually monitor events or conditions which may cast doubt on the Authority's ability to continue as a going concern. Presently, there are non known.</p>
<p>9. Are arrangements in place to report the going concern assessment to the Audit and Risk Committee?</p> <p>How has the Audit and Risk Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>The Authority and Audit &amp; Risk Committee receive regular up to date information on the Authority's ability to remain a going concern. The Treasurer presented details of the 2020/21 budget and underlying assumptions to Members. No significant issues were raised which cast doubt on the assumptions doubts on the assumptions made. Members recognise that the Authority continues to face a challenging financial position in the medium term, however in the short term the MTFP and level of reserves are sufficient to ensure delivery of priorities.</p>

# Related Parties

## Issue

### Matters in relation to Related Parties

Local Authorities are required to comply with IAS 24 and 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 the Authority (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity 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 entity 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 perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK&I) 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.

## Relating Parties

Question	Management response
<p>1. What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> <li>• Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions.</li> <li>• Annual return from senior managers/officers requiring confirmation that they have read and understood the declaration requirements and stating details of any known related party interests.</li> <li>• Annual return from Members stating details of any known related party interests.</li> <li>• Review of in-year income and expenditure transactions with known identified related parties from prior year or known history.</li> <li>• Review of related information with subsidiaries, companies and joint ventures, e.g. accounts.</li> <li>• Review of the accounts payable system and identification of amounts paid to assisted or voluntary organisations.</li> </ul>
<p>2. What are the Authority's related parties, including changes from the prior period?</p>	<p>The Authority has a number of related parties in which there is a material impact to the financial statements via virtue of whether the Authority might have:</p> <ul style="list-style-type: none"> <li>• potential either to be controlled or influenced by the party or</li> <li>• the potential to exert control or influence over the party (as defined by guidance in the Code).</li> </ul> <p>The Authority discloses its related parties under the following headings:</p> <ol style="list-style-type: none"> <li>1. Central Government (Non-Domestic Rates income) – central government has control influence over the Authority as the Authority needs to act in accordance with its statutory responsibilities.</li> <li>2. West Midland Local Authorities (Council Tax income) – these parties are subject to common control by central government and thus might be empowered to transact on non-commercial terms.</li> </ol> <p>There are processes in place to identify related party transactions with Members and Officers – Certain Members and Officers may have controlling influence or related interests with other of the Authority's related party organisations, such that they may be in a position to significantly influence the policies of the Authority. In 2018/19 there were no such related parties identified.</p>



## Relating Parties

Question	Management response
3. Has the Authority entered into any transactions with these related parties during the period, and if so, what was type and the purpose of these transactions?	See response above

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

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

# Accounting Estimates

Question	Management response
1. How are transactions, events, and conditions identified that may give rise to the need for accounting estimates to be recognised or disclosed in the financial statements?	The Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting in the UK (Code), supported by International Financial Reporting Standards (IFRS) and statutory guidance.
2. 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)?	There are no major changes in circumstances for accounting estimates in 2019/20. Any changes to the Code and IFRS are reflected within the Statement of Accounts.
3. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes, where estimates are required appropriate estimation methodology is utilised. Estimates are prepared by those who are best qualified e.g. for pension and asset valuations.
4. How is the Audit and Risk Committee provided with assurance that the arrangements for accounting estimates are adequate?	Accounting policies provide details within the Authority's Statement of Accounts. The Treasurer provide assurance to the Audit and Risk Committee and signs the Statement of Accounts.

## 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?
Property plant & equipment valuations	<p>Valuations are made by the appointed Valuer (Wilkes, Head and Eve Chartered Surveyors and Town Planners) in line with RICS guidance on the basis of 5 year valuations with interim reviews.</p> <p>The Authority are having a full valuation in 2019/20 following the change in estimation technique for specialised assets which was introduced in 2012/13.</p>	Members of the Finance Team notifies the Valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation.	Valuer used for PPE valuations	Valuations are made in line with RICS guidance - reliance on expert.	No



## 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?
Estimated remaining useful lives of PPE	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	Valuer used for PPE and estimated remaining useful life assessments.	Valuations are made in line with RICS guidance - reliance on expert.	No
Bad Debt Provision	A provision is estimated using a proportion basis of an aged debt listing.	Members of the Finance Team calculate the provisions from the aged debt listing based upon prior experience.	No	A consistent proportion of the aged debt listing is applied after any specific debts have been provided for where circumstances of certainty are known. The proportion is based upon the type of debt and historic payment pattern.	No



## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	Valuer used for PPE valuations	Valuations are made in line with RICS guidance - reliance on expert.	No
Measurement of Financial Instruments	The Authority values financial instruments at fair value based upon current conditions and Senior Finance team judgement.	An estimate is made by senior members of the finance team.	No	The Authority does not have many balances which are required to be disclosed as a financial instrument. Considered straight forward with a low degree of estimation required.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	<p>The following asset categories have general asset lives:</p> <ul style="list-style-type: none"> <li>•Operational Vehicles –straight line over 10 years.</li> <li>•Ancillary Vehicles -straight line over 5 years.</li> <li>•Equipment -straight line over 5 years.</li> </ul> <p>Depreciation is provided for all fixed assets with a finite life on a straight line basis. Asset lives for buildings are obtained from the Valuer. Freehold land is not depreciated.</p> <p>No depreciation is accounted for in the year of acquisition but is accounted for in the year of disposal.</p>	Consistent asset lives applied to each asset category.	Valuer used for PPE and estimated remaining useful life assessments.	The method makes some generalisations. For example, buildings tend to have a useful life of 50 years. Although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction materials used. This life would be recorded in accordance with the local qualified RICS or CIB Member.	No



## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	<p>Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement, by a transfer of economic benefits or service potential, and a reliable estimate made of the value.</p> <p>Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.</p>	Charged in the year that the Authority becomes aware of the obligation. A Calculation is made by Senior members of the finance team based upon information from third parties e.g. insurers, solicitors.	No	<p>Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.</p> <p>Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Authority.</p>	No





## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	<p>Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement, by a transfer of economic benefits or service potential, and a reliable estimate made of the value.</p> <p>Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.</p>	Charged in the year that the Authority becomes aware of the obligation. A Calculation is made by Senior members of the finance team based upon information from third parties e.g. insurers, solicitors.	No	<p>Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.</p> <p>Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Authority.</p>	No



## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	The Treasurer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an adjusting event which is disclosed as a note to the accounts identifying the nature of the event and where possible estimates of the financial effect.	The Treasurer liaises with the Finance team and considers all known information.	Yes – the Actuary for the LGPS and the Uniformed Schemes.	This would be considered individually for each case.	No



## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	The Finance Team collate accruals of income and expenditure from sales ledger, purchase ledger and budget information. Activity is accounted for in the financial year that it takes place, not when the money is paid or received in line with the accounting policies.	Sales ledger, purchase ledger and management accounts information are assessed by the Finance Team.	No	Accruals for income and expenditure have been principally based on known values. Where estimates have to be made these are based upon the latest available information.	No



## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension liability	The Authority is an admitted body to the Local Government Pension Scheme (LGPS). The Uniformed Schemes are unfunded and are administered by the Authority based upon guidance from MHCLG. Information is passed from the Authority to the Actuaries upon which they base their assessment for the estimate.	The Actuary reports are reviewed by Finance Staff for reasonableness.	Yes – the Actuary for the LGPS and the Uniformed Schemes.	Reliance upon another auditor – PwC for their work on the Actuary of the LGPS through their audit of the Wolverhampton City Council. Reliance upon the expertise of the Actuary of the Uniformed Pension Schemes.	No
Overhead Allocation	Not Applicable				





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