



Audit and Risk Committee
West Midlands Fire & Rescue Authority
West Midlands Fire Service Headquarters
99 Vauxhall Road
Birmingham
B7 4HW

26 April 2021

Dear Committee,

West Midlands Fire and Rescue Authority Financial Statements for the year ended 31 March 2021

As part of our audit of West Midlands Fire and Rescue Authority's financial statements for the year ended 31 March 2021, we need to update our understanding of your accounting estimates, including all the key accounting estimates that will be included in the Authority's financial statements this year. We do this to maintain our understanding of the Authority and to comply with International Auditing Standards (ISAs (UK)), including the revised standards that apply to our 2020/21 audit for the first time.

International Auditing Standards place obligations on auditors to document their understanding of the entity and its environment, including the entity's internal control, in identifying and assessing the risks of material misstatement in the financial statements. [ISA \(UK\) 540 \(Revised\) Auditing Accounting Estimates and Related Disclosures](#) (revised in December 2018) is effective for audits of financial statements for periods beginning on or after 15 December 2019. The revised standard requires auditors to understand a number of matters related to your key accounting estimates (as set out in section 13 of the standard).

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the accompanying schedules. A separate schedule is included for each key accounting estimate that we have identified. If you are aware of any other material accounting estimates that will be included in your financial statements could you please add and complete an additional schedule for that estimate.

I would be grateful for your responses by the 7th June to help inform our risk assessment and planning of our 2020/21 audit of the Authority's financial statements.

Please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Siobhan Barnard
Audit Manager

Property, plant, and equipment valuation estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>No material risks have been identified.</p> <p>Valuations are made by the appointed Valuer (Wilks Head and Eve Chartered Surveyors and Town Planners (WHE)) in line with RICS guidance.</p> <p>The Authority are having a full valuation in 2020/21.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>In conjunction with Sandwell MBC - Strategic Asset Management (SAM) team, who provide guidance, advice & assistance with appointing the Valuer, issuing instructions and reviewing the valuations.</p> <p>No</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>See above response</p> <p>No</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>Members of the Finance and Resources team notify the Valuer via SAM of capital expenditure and any material changes to assets. Regular financial monitoring takes place with the Authority's Facilities Management team.</p> <p>No</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>Valuers (WHE) appointed for valuations via SAM.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>Members of the Finance and Resources team notifies the Valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>Yes, additional verification of valuations provided by WHE are carried out by SAM. The valuation report is reviewed by Finance Staff for reasonableness.</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>No</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Valuations are made in line with RICS guidance and any uncertainties are reflected in the final valuation report.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>In conjunction with Sandwell MBC - Strategic Asset Management (SAM) team, who provide guidance, advice & assistance with appointing the Valuer, issuing instructions and reviewing the valuations.</p>

Estimated remaining useful lives of PPE

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>No material risks have been identified.</p> <p>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.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>In conjunction with Sandwell MBC - Strategic Asset Management (SAM) team, who provide guidance, advice & assistance with appointing the Valuer, issuing instructions and reviewing the valuations.</p> <p>No</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>See above response</p> <p>No</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>Members of the Finance and Resources team notify the Valuer via SAM of capital expenditure and any material changes to assets. Regular financial monitoring takes place with the Authority's Facilities Management team.</p> <p>No</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>Valuer (WHE) used for PPE and estimated remaining useful life assessments.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>Yes, additional verification of valuations provided by WHE are carried out by SAM. The valuation report is reviewed by Finance Staff for reasonableness.</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>No</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Valuations are made in line with RICS guidance and any uncertainties are reflected in the final valuation report.</p>

10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	In conjunction with Sandwell MBC - Strategic Asset Management (SAM) team, provide guidance, advice & assistance with appointing the Valuer, issuing instructions and reviewing the valuations.
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Bad Debt Provision

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No material risks have been identified. A provision is estimated using a proportion basis of an aged debt report listing.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	See above response No
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	See above response No
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	See above response No
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Sandwell Debt Recovery team advise on outstanding debt.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	Members of the Finance Team calculate the provision from the aged debt listing based upon prior experience.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes, the provision is calculated by the Finance Team and approved by the Finance Manager.
8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	A provision is estimated using a proportion basis of an aged debt report listing.

10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	See response above
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Impairments

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No material risks have been identified. 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.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	In conjunction with Sandwell MBC - Strategic Asset Management (SAM) team, who provide guidance, advice & assistance with appointing the Valuer, issuing instructions and reviewing the valuations. No
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	See above response No
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	Members of the Finance and Resources team notify the Valuer via SAM of capital expenditure and any material changes to assets. Regular financial monitoring takes place with the Authority's Facilities Management team. No
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Valuer (WHE) used for PPE valuations.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes, additional verification of valuations provided by WHE are carried out by SAM. The valuation report is reviewed by Finance Staff for reasonableness.

8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	Valuations are made in line with RICS guidance and any uncertainties are reflected in the final valuation report.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	In conjunction with Sandwell MBC - Strategic Asset Management (SAM) team, provide guidance, advice & assistance with appointing the Valuer, issuing instructions and reviewing the valuations.

Measurement of Financial Instruments

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No material risks have been identified. The Authority values financial instruments at fair value based upon current conditions and Finance team judgement.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	See above response No
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	See above response No
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	See above response No
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Sandwell MBC provides a Treasury Management Service and have appointed Link Asset Services as their advisors.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	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.

7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes, any estimates are calculated by the Finance Team.
8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	The Authority values financial instruments at fair value based upon current conditions and Finance team judgement.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	See response above

Depreciation and Amortisation

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	<p>No material risks have been identified.</p> <p>The following asset categories have general asset lives:</p> <ul style="list-style-type: none"> •Operational Vehicles –straight line over 10 years. •Ancillary Vehicles -straight line over 5 years. •Equipment -straight line over 5 years. <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 (WHE). 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>
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	<p>See above response</p> <p>No</p>
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	<p>See above response</p> <p>No</p>

4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	See above response No
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Valuer (WHE) used for PPE and estimated remaining useful life assessments.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	Consistent asset lives applied to each asset category.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes, additional verification of valuations provided by WHE are carried out by SAM. The valuation report is reviewed by Finance Staff for reasonableness.
8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	The method makes some generalisations. For example, buildings tend to have an average useful life of 50 years. Although in specific examples based upon a valuation review, a new building may differ. This life would be recorded in accordance with the qualified RICS member.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	In conjunction with Sandwell MBC - Strategic Asset Management (SAM) team, provide guidance advice & assistance with appointing the Valuer, issuing instructions and reviewing the valuations.

Provisions for Liabilities

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	<p>No material risks have been identified.</p> <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> <p>The Monitoring Officer and Strategic Enabler for People are requested to confirm of any known requirements at</p>

	year end by the Treasurer.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	See above response No
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	See above response No
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	See above response No
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Information is provided by People Support Services, Monitoring Officer, insurers, solicitors depending on the nature of the provision required
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	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.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes, Information is provided by People Support Services, Monitoring Officer, insurers, solicitors depending on the nature of the provision required The Monitoring Officer and Strategic Enabler for People are requested to confirm of any known requirements at year end by the Treasurer.
8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	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. 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.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	See response above

Non-Adjusting Events – events after the balance sheet date

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No material risks have been identified. 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.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	See above response No
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	See above response No
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	See above response No
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Information is provided by e.g. Members of the Strategic Enabling Team (SET), Monitoring Officer depending on the nature of the event. The Actuary for the LGPS and Uniformed Schemes.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	The Treasurer liaises with SET and the Finance team to considers all known information.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes, the Treasurer liaises with SET and the Finance team to considers all known information.
8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	This would be considered individually for each case.

10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	This would be considered individually for each case
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Accruals

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No material risks have been identified.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	The Finance Team collate accruals of income and expenditure from Accounts Payable ledger, Accounts Receivable ledger and budget monitoring and returns from departments. 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.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	See above response No
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	See above response No
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	The Finance team liaise with Budget Holders and Procurement
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	Accounts Payable, Accounts Receivable and management accounts information are assessed by the Finance Team.

7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes, the Finance team assess and report the outturn figures against budgets.
8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	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.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	See response above

Pension Liability

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	<p>No material risks have been identified.</p> <p>The Authority is an admitted body to the Local Government Pension Scheme (LGPS).</p> <p>The Uniformed Schemes are unfunded and are administered by the Authority based upon guidance from MHCLG.</p> <p>Information is passed from the Authority to the Actuaries upon which they base their assessment for the estimate.</p>
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	<p>In conjunction with:</p> <p>LGPS – West Midlands Pension Fund (Barnett Waddingham)</p> <p>Uniformed Staff – Government Actuaries Department (GAD)</p> <p>No</p>
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	<p>See above response</p> <p>Main change in assumptions are CPI % increase and % decrease in discount rate based on market/bank of England forecasts.</p>

<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>See above response</p> <p>No</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>LGPS – West Midlands Pension Fund (Barnett Waddingham)</p> <p>Uniformed Staff – Government Actuaries Department (GAD)</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>The Actuary reports are reviewed by Finance Staff for reasonableness. Advice is sought from the Payroll & Pension Manager</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>Yes, the Actuary reports are reviewed by Finance Staff for reasonableness.</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>No</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Reliance upon the audit work of PwC, on the Actuary of the LGPS through their audit of the Wolverhampton City Council.</p> <p>Reliance upon the expertise of the Actuary of the Uniformed Pension Schemes.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>In conjunction with:</p> <p>LGPS – West Midlands Pension Fund (Barnett Waddingham)</p> <p>Uniformed Staff – Government Actuaries Department (GAD)</p>