

# Informing the audit risk assessment for West Midlands Fire and Rescue Authority 2020/21

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## 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), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Risk Committee. ISA(UK) 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 Authority's oversight of the following areas:

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

## Purpose

This report includes a series of questions on each of these areas 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 2020/21?	Pensions – McCloud / Sargant remedy Asset valuations
2. Have you considered the appropriateness of the accounting policies adopted by the Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes – Accounting policies are reviewed annually
3. Is there any use of financial instruments, including derivatives?	None Known
4. Are you aware of any significant transaction outside the normal course of business?	None Known

## 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?	None Known
6. Are you aware of any guarantee contracts?	None Known
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None Known
8. 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.

## General Enquiries of Management

Question	Management response
9. 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
10. 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) 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.
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.
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.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	None Known

## Fraud risk assessment

Question	Management response
<p>3. 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 2020?</p>	<p>There are no known instances of fraud that have been identified during the year.</p>
<p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Internal and External Audit reports to the Audit and Risk Committee</p>
<p>4. Have you identified any specific fraud risks?</p>	<p>None known. Head of Internal Audit Opinion in 2020/21 did not highlight any weaknesses</p>
<p>Do you have any concerns there are areas that are at risk of fraud?</p>	<p>No Specific concerns. Head of Internal Audit Opinion in 2020/21 did not highlight any weaknesses</p>
<p>Are there particular locations within the Authority where fraud is more likely to occur?</p>	<p>None known. Head of Internal Audit Opinion in 2020/21 did not highlight any weaknesses</p>
<p>5. What processes do the Authority have in place to identify and respond to risks of fraud?</p>	<p>The Authority has a Anti Fraud &amp; 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>

# Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for the Authority, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <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)?</p>	<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.</p> <p>Financial Regulations Anti fraud and corruption standing order Internal controls and segregation of duties</p> <p>None known. Head of Internal Audit Opinion in 2020/21 did not highlight any weaknesses in this area.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>None known.</p>

## Fraud risk assessment

Question	Management response
<p>8. How do the Authority 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?</p> <p>Have any significant issues been reported?</p>	<p>There is an Employee Code of Conduct and Financial Regulations. Staff are regularly reminded of these.</p> <p>There is a Anti Fraud &amp; 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</p> <p>No issues of significant fraud have been reported.</p>
<p>9. 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>Posts within Financial Management and Revenues</p> <p>Compliance with Financial Regulations and Standing Orders Internal Audit Reports Segregation of duties</p>
<p>10. 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 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>

## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Risk Committee? 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? 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>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The Monitoring Officer has confirmed that there were no allegations of whistle blowing in 2020/21. An update to be provided at the Audit &amp; Risk Committee meeting in July 2021 - Monitoring Policies on Raising Concerns at Work – Whistle Blowing Standing Order 2/20 and Regulation of Investigatory Power Act 2000.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>There are no known instances that have been identified during the year.</p>

# Law and regulations

## Issue

### 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 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 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 2020 with an on-going impact on the 2020/21 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. What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	See response to 1 above
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None noted

# Related Parties

## Issue

### Matters in relation to Related Parties

The Authority are required to 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;
- 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 [type of body]'s perspective but material from a related party viewpoint then the Authority must disclose it.

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

## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in the Authority's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> <li>• the nature of the relationship between these related parties and the Authority</li> <li>• whether the Authority has entered into or plans to enter into any transactions with these related parties</li> <li>• the type and purpose of these transactions</li> </ul>	<p>None noted</p>
<p>2. 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>

## Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	See response above
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	See response above

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity'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 entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity'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 and Risk Committee members:

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

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

# Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	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. Asset valuations are made in line with RICS guidance.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	See response above The Principal 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 Grant Thornton.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Specialist advisors are consulted with and source data provided to enable key accounting estimates. These include: Pensions – Government Actuaries Department Pensions – West Midlands Pension Fund Asset Valuations – Sandwell MBC & Wilks Head & Eve
4. How do management review the outcomes of previous accounting estimates?	Consideration/recommendations within the previous years Audit Findings Report and Annual Audit Letter. Internal Audit recommendations.

# Accounting Estimates - General Enquiries of Management

Question	Management response
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	Other than additional scrutiny required for asset and pension estimated, no significant changes made to the estimation process in 2020/21.
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	<p>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), RICS and statutory guidance.</p> <p>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.</p>
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	See response above
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	See response above

# Accounting Estimates - General Enquiries of Management

Question	Management response
<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"><li>- Management's process for making significant accounting estimates</li><li>- The methods and models used</li><li>- The resultant accounting estimates included in the financial statements.</li></ul>	See response above

## Accounting Estimates - General Enquiries of Management

Question	Management response
10. 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 2020/21. Any changes to the Code and IFRS are reflected within the Statement of Accounts.
11. 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.
12. 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 provides assurance to the Audit and Risk Committee and signs the Statement of Accounts. Internal Audit and Grant Thornton also report to the Audit and Risk Committee.



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