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# Informing the audit risk assessment for Worcestershire County Council and Pension Fund 2019/20

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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 Governance 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 Governance Committee under auditing standards.

## Background

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

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

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- 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 Authority's management. The Audit and Governance 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?	Key events/issues: transfer of Children's Services to wholly owned subsidiary WCF and requirement to consolidate and prepare Group Accounts, restructuring of Directorates and presentation/restatement in C&IES.
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?	Accounting policies are reviewed and updated on an annual basis to ensure that any new policies are incorporated and that existing policies are correct. The proposed 2019/20 accounting policies will be presented to Audit & Governance Committee in March 2020 for approval. Consolidation of 100% wholly owned subsidiary: Worcestershire Children First will require additional accounting policy to explain the basis for inclusion/consolidation.
3. Is there any use of financial instruments, including derivatives?	The Council's financial instruments comprise: Investments, Cash Equivalents, Debtors, Borrowings, PFI and Finance Lease liabilities and financial liabilities. Financial Instruments are accounted for as per the requirements of IFRS9. WCC Pension Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities.
4. Is Are you aware of any significant transaction outside the normal course of business?	None in 2019/20.



## 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 in 2019/20.
6. Are you aware of any guarantee contracts?	None in 2019/20.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None in 2019/20.
8. Other than in house solicitors, can you provide details of those solicitors utilised during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Confirmed by Tom Pollock: Barristers are engaged to support litigation of the Witley Case and employment tribunal cases. In Adult Social Care, barristers are engaged periodically to undertake advocacy work in the Court of Protection for more complex cases. There are currently no external solicitors engaged for legal work. There is an external Legal Executive currently instructed as a costs draftsman re negotiating a Claimant's Bill of Costs where WCC lost a Judicial Review claim. The Insurance team use Weightmans, Browne Jacobson and Plexus through our insurers to assist with legal claims.
9. Have any of the service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None in 2019/20.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<u>C.Co</u> are providing the Council with support as part of the Organisational Redesign programme to include a review of current processes, structures, governance and the way in which the Council works. Alongside the work undertaken by <u>C.Co</u> , Peopletoo are working alongside Adult Social Care and Adult Internal Provider Services to review current plans and how these mitigate growing demand to identify changes and improvements.



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

As the Council and Pension Fund'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 Risk & Assurance 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 Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance 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
<p>1. Have Worcestershire County Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>Yes. The Council and Pension Fund have a robust financial control framework, supported by financial regulations, standing orders, scheme of delegation and an independent and objective Internal Audit function. Responsibility for ensuring that fraud and corruption risks are addressed sits with the Chief Finance Officer of the Council. The results of reports prepared by Internal Audit are regularly reviewed and the implementation of recommendations made to management, to address highlighted risks and weakness in controls, is monitored. The Finance Team comprises skilled, qualified, accounting professionals responsible for the preparation of regular monthly management accounts which report actual income and expenditure against budgeted and forecast performance; this monthly process includes input from Service areas and a review of variances and activity to highlight instances of fraud and error. IA participate in NFI activity and membership to CIFAS (cross-sector fraud sharing organisation) is planned in 2020.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>We have determined the classes of accounts, transactions and disclosures most at risk to fraud to be those which comprise low value, manual entries. High value and automated transactions, for example to record treasury investments and banking transfers, have additional controls in place. Risk areas identified in 2019/20 include instances where system login controls have not been applied (e.g. sharing of username/passwords).</p>
<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 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No material instances of fraud have been identified in 2019/20. One case of proven fraud has been recorded in the year which will result in disciplinary action; the value is not material. Risk and fraud issues are communicated to those charged with governance via quarterly Internal Audit and risk management reports presented to the Audit &amp; Governance Committee. Routine monthly financial monitoring reports presented to Cabinet also include any identified risks or issues. The Pensions Risk Register, Administration and Investment update are reported quarterly to the Pensions Committee and policy documents relating to governance and risk are regularly maintained and reported to the Committee.</p>



# Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Authority where fraud is more likely to occur?</p>	<p>We have not identified any specific fraud risks in 2019/20 or locations within the Council where fraud is more likely to occur. We are aware of the risks common to Local Authorities (Adult social care, insurance, procurement, grant, payroll/expenses and disabled parking concession fraud) and these underpin our approach to fraud identification and detection. The Council's Internal Audit Plan follows a risk-based approach to consider areas of potential fraud risk and whether the controls in place are designed and operating effectively to mitigate the identified risks. In addition, management is expected to identify and record fraud risks on the Corporate Risk Register.</p>
<p>5. What processes do the Authority have in place to identify and respond to risks of fraud?</p>	<p>The Council and Fund's revised Anti-Fraud and Corruption Strategy (to be approved) outlines our approach to identify and respond to risks of fraud and this is consistent with the Local Government Fraud Strategy: 'Fighting Fraud Locally'. The 3 key themes of our approach are Acknowledge, Prevent and Pursue. The approach sits alongside an established framework of policies, procedures and controls to provide the major elements of our fraud and corruption prevention governance arrangements which include: Council Constitution including Financial Regulations, Code of Conduct for Councillors and Employees, Registers of Interest, Procurement Rules and Guidance, Whistle Blowing Policy, HR Policies and Procedure for managing recruitment, Standards Committee, Codes of Practice on Planning Matters and Local Authority Publicity, Anti-Money Laundering Policy and Procedures, HR policies and procedures of managing performance including disciplinary matters, IT Security Policy. The Strategy identifies the key stakeholders in deterring and preventing fraud and corruption and details their specific responsibilities. The Council's core policies and procedures are currently under review to ensure they continue to support our financial regulations.</p>

# Fraud risk assessment

Question	Management response
<p>6. How would you assess the overall control environment for the Authority, including:  the process for reviewing the effectiveness the system of internal control;  internal controls, including segregation of duties;  exist and work effectively?</p> <p>If not 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>The Council's internal control framework is supported by the Risk Management Strategy and Anti-Fraud &amp; Corruption Strategy to provide a strong financial framework. The effectiveness of the control environment is considered throughout the year by the Corporate Risk Management Group (CRMG) which maintains and reviews the Council's risk register with Officers and Members on a regular basis. The risk based Internal Audit Plan tests the operating effectiveness of the control framework and reports to management and the Audit &amp; Governance Committee where weaknesses are identified. Policies and procedures which govern our business process are designed to provide separation of duties to reduce the risk of fraud and collusion and exception reporting, control account reconciliations and analytical review processes are used to identify fraudulent transactions and activity.</p> <p>The Council supports and submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation. The Chief Financial Officer is responsible for ensuring this strategy is applied and that the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption is followed.</p> <p>We do not consider there is potential for override of controls or inappropriate influence over financial reporting.</p>



## Fraud risk assessment

Question	Management response
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>The internal financial reporting process is subject to regular review and challenge through the finance team reporting structure to reduce the potential for misreporting. A quality review of the Statement of Accounts is undertaken by both Chief Accountant and Chief Finance Officer as well as an independent review by Internal Audit to identify instances of misreporting.</p>
<p>8. How does 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>The Council has a robust financial control framework, supported by the Council's financial regulations and supporting policies and procedures which are designed to detect and prevent instances of fraud and error. Where a fraud risk is suspected, the Council has a Whistleblowing and Anti-Fraud &amp; Corruption policy, made available to employees and residents via the Council intranet and internet respectively which outlines the relevant procedure to follow. In addition, a dedicated fraud hotline (01905 843222) is available to report instances of suspected fraud and there is an opportunity to report fraud via the Registrars. Training has taken place in 2019/20 via the Council's programme of Lunch &amp; Learn lectures to raise awareness of potential fraud and the forms it may take within the Council and there is an internal fraud e-learning module for all staff. No significant issues have been reported in 2019/20.</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>There are no posts which have been determined as high-risk from a fraud and corruption perspective.</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>Related party transactions are identified and monitored through routine reporting procedures. No instances of fraud in respect of related party transactions have been identified in 2019/20. Risks associated with fraud due to related party transactions are mitigated through Member/Officer requirements to disclose all relevant relationships and transactions at Council and Committee meetings and via the Council's Registers of Gifts/Interests.</p>

## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p> <p>How does the 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>Fraud and risk issues are reported on a quarterly basis to Audit &amp; Governance Committee through the Internal Audit Progress Report and Corporate Risk Report. The Audit &amp; Governance Committee exercises oversight over management processes for identifying and responding to risks of fraud and breaches of internal control through challenge of internal audit reports, monitoring the implementation of recommendations and seeking additional assurances from operational management.</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>Not aware of any.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>Not aware of any.</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 Governance 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 Governance 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 Council and Pension Fund 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 Council's Constitution identifies the Monitoring Officer as the individual responsible for reporting the actual or potential breach of a legal requirement to the Council meeting or Cabinet. The Monitoring Officer is supported by a team of Legal and Democratic Services Officers to communicate issues and matters of concern. The Monitoring Officer has sight of all reports presented to the Chief Officer Management Board and all reports presented to Members. All reports to Members are required to include a 'Legal Implications' and 'Risk' section to inform of relevant issues. The section 151 Officer is responsible for preparing the Council's annual Statement of Accounts in accordance with relevant legal and regulatory requirements.</p>
<p>2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer (or representative) attends Audit &amp; Governance Committee meetings to advise and inform Committee members on legal issues as they arise.</p>
<p>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?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No</p>

## 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?	The Council has an internal Insurance Team, under the line management of the s151 Officer, which advises and monitors any instances of litigation and claims. This is in addition to the services undertaken by the Legal and Democratic Services Team. All issues are brought to the attention of the Monitoring Officer and/or s151 Officer as the arise.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

# Going Concern

## Issue

### Matters in relation to going concern

ISA (UK) 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 Council and Pension Fund? What was the outcome of that assessment?</p>	<p>The Chief Financial Officer, as the Council's s151 Officer, is satisfied that the budget proposals are based on robust assumptions and reasonable estimates and that the proposed use and remaining balances of Council reserves is appropriate. This was reported in the 2019/20 Budget Report and MTFP Update 2019-22 which was presented to, and approved by, Council and Cabinet in February 2019. The Chief Financial Officer is satisfied that the continuing levels of funding of the pension fund are adequately robust; these levels are based on the estimates of the fund's liabilities calculated by the actuary and the value of its assets, determined by its custodian. These levels have been reported throughout the year to the Pensions Committee.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?</p>	<p>The Medium Term Financial Strategy supports the strategic, transformational and operational plans of the Council and forms part of the corporate strategic planning process. The financial assumptions are therefore consistent with those used to prepare the Corporate Plan. In year financial reporting and monitoring to management, Council and Cabinet is by reference to the future levels of income and expenditure as outlined in the agreed budget. As noted above, the calculation of Pension Fund liabilities provided by the Council's actuary are prepared on the same 'like for like' basis as was agreed as part of the last Funding Strategy Statement. Asset projections are based on Fair Value, using information from the Investment Fund managers. The Investments are made in accordance with the approved Investment Strategy Statement (ISS) and these are monitored and reported to the Pensions Committee on a quarterly basis.</p>



## Going concern considerations

Question	Management response
<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>The Council's financial plans consider changes in statutory and policy changes and plans are updated to reflect changes in assumptions in both income and spend and the resulting impact upon the level of investment and savings plans required. The Investment Strategy Statement (ISS) considers any changes in strategic investment allocations and the Council's investment advisor provides a detailed, quarterly report on future economic outlook and the corresponding potential impact on investment levels. The changes and their impacts are discussed at the Pensions Investment Advisory Panel and Pensions Committee and action is taken where necessary.</p>
<p>4. Have there been any significant issues raised with the Audit and Governance 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>There have been no significant issues raised with the Audit &amp; Governance Committee during the year which could cast doubts on the assumptions made. The quarterly Internal Audit Progress Reports have not highlighted any issues in respect of financial performance or significant weakness in the financial control environment.</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>No adverse financial indicators have been identified. There has been a reducing cashflow in the Pension Fund as a result of the take up of a 3 year discounted contribution period, prepaid in advance in 2017/18. This reduction in cashflow has been managed through increased investment in income generating funds, as opposed to reinvestment, to ensure sufficient cashflow to meet the requirements of benefit payments.</p>



## Going concern considerations

Question	Management response
<p>6. Do the Council and Pension Fund have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes. The Council has an appropriately skilled and experienced senior management team. As part of transformation activity in 2019/20, the Council continues to review the skills, qualifications and knowledge of its employees to ensure the resources are able to deliver the Council's strategic objectives.</p>
<p>7. Does the Council and Pension Fund have procedures in place to assess their ability to continue as a going concern?</p>	<p>Yes. The Council has a robust planning process which considers its financial resources in the context of its strategic objectives. This includes the annual Corporate Strategic Planning activity and weekly Star Chamber call-ins to monitor performance and progress against challenging targets. Directors and Cabinet Members are involved in this process. Routine in year financial monitoring and reporting measures in year performance against budget and considers forecast outturn position, achievement of savings targets and use of reserves as part of ongoing activity to consider financial sustainability. The Pension Fund is supported by a 3 year business and operational plan which is monitored regularly by management. Risks are managed through the Risk Register which is reported to the Pensions Committee and relevant policies and procedures are reviewed annually.</p>
<p>8. Is management aware of the existence of events or conditions that may cast doubt on the Council and Pension Fund's ability to continue as a going concern?</p>	<p>There are no events or conditions that may cast doubt over the Council and Pension Fund's ability to continue as a going concern that management is aware of.</p>



## Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Audit and Governance Committee ?</p> <p>How has the Audit and Governance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>The Council has many statutory responsibilities and functions and, as such, the financial statements are prepared on a going concern basis. Changes to these functions and responsibilities are decisions made by Cabinet, and where appropriate Full Council, and these matters are routinely considered by the Audit &amp; Governance Committee.</p>

# Related Parties

## Issue

### Matters in relation to Related Parties

The Council and Pension Fund 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 Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the 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's perspective but material from a related party viewpoint then the Council must disclose it.

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

## Relating Parties

Question	Management response
<p>1. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships ?</p>	<p>Related party transactions are identified as part of an ongoing process throughout the year by Finance and Legal Services staff. Potential related parties are identified through a regular review of Cabinet papers, WCC intranet, verification from Directorates, review of registers maintained by WCC (Councillors' declaration of interests, Members/Officers registers of gifts/interests) and transactions recorded in our financial accounting system. As part of the final accounts process, a particular challenge exercise is carried out to identify related parties and relevant transactions; the results of this exercise are disclosed in the Statement of Accounts.</p>

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

The Council and Pension Fund apply appropriate estimates in the preparation of their financial statements. ISA (UK) 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 Combined 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 both the Council and the Fund are 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 Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates

Question	Management response
1. 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)?	No
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
3. How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The assumptions which underpin the figures reported in the Statement of Accounts are reviewed in advance of preparation and such estimates and assumptions are disclosed in the Notes to the accounts for transparency.

## 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	Valuations are made by a qualified valuer (RICS/CIB Member) in line with RICS guidance on the basis of 5 year valuations with interim reviews.	There is a rolling program of valuations and the finance team issues a terms of engagement covering specific issues for the year	Yes, the valuer is a member of RICS	Valuations are made in-line with RICS guidance -reliance on expert	No
Estimated remaining useful lives of PPE	The following assets categories have general asset lives: •Buildings 10-99 years •Vehicles, Plant and machinery 3-10 years •Infrastructure 20 years	Consistent asset lives applied to each asset category	Use a local RICS member for valuations	The method makes some generalisations. For example, buildings tend to have a useful life of up to 65 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 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?
Depreciation and Amortisation	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis	Consistent application of depreciation method across all assets	No	<p>The length of the life is determined at the point of acquisition or revaluation according to:</p> <ul style="list-style-type: none"> <li>•assets which are bought from a third party are depreciated for a full year in the year of purchase. All other assets created as a result of capital expenditure during the year are depreciated for a full year where appropriate.</li> <li>•Assets under construction, being capital works in progress where the uncompleted asset does not have a material benefit to the County Council, are not depreciated.</li> </ul>	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 an indication that an asset may be impaired. Where indications of impairment 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.	Use the internal local RICS member for valuations.	Valuations are made inline with RICS guidance – reliance on expert	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?
Measurement of Financial Instruments	Council and Pensions value financial instruments at fair value based on the advice of their external treasury consultants and Investment Fund Managers.	All financial instruments are reviewed at year end and advice taken from professional advisors	Yes	Instruments are valued on an individual basis with advice from treasury management professionals and investment fund managers	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	Provisions are made whenever an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council 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..	Charged in the year that the Council becomes aware of the obligation	No	Estimated settlements are reviewed at the end of each financial year. The insurance provision is periodically reviewed by the council's insurance broker	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?
PFI schemes and similar contracts	<p>PFI and similar contracts are agreements to receive services, where the responsibility for making available or improving the asset to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, it carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.</p> <p>The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.</p>	<p>The models for the PFI contracts are used to produce the accounts. The internal valuer is used for valuations</p>	<p>Use of model for calculating PFI payment elements Use a RICS Member for valuations</p>	<p>Valuations are made in-line with RICS guidance - reliance on expert.</p>	<p>No.</p>

## 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	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Procedures for identifying accruals are included in the closedown instructions	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used.	No.
Non Adjusting events – events after the balance sheet date	S151 officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an un-adjusting event. For these events only a note to the accounts is included, identifying the nature of the event.	Heads of Services notify the S151 Officer	This would be considered on individual circumstances	This would be considered on individual circumstances	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?
Defined benefit pension amounts and disclosures	Non-teaching staff are members of the LGPS, administered by WCC.	Rely on the calculations made by the actuary	The actuary of the pensions scheme	Reliance on the expertise of the actuaries of the pension scheme	No.
Pension Fund Actuarial Gains/Losses	The actuarial gains and losses figures are calculated by the actuarial experts. These figures are based on making % adjustments to the closing value of assets/liabilities.	For the LGPS the Authority responds to queries raised admitted bodies of the pension fund.	The Authority are provided with actuarial report	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field. Any major Market fluctuations that may impact on the year end valuations should they occur will be discussed with the Actuary to ensure that forecasts are reasonable.	No.





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