

# Informing the audit risk assessment for Hereford and Worcester Fire Authority 2021/22

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## Purpose

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

## Background

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

This two-way communication assists both the auditor and the Audit & Standards 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 & Standards Committee and supports the Audit & Standards 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,
- Going Concern, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Hereford and Worcester Fire Authority's management. The Audit & Standards 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
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>The key issues that will impact the financial statements are</p> <ul style="list-style-type: none"> <li>• PPE and the valuation of assets and their assessment for inclusion in the accounts</li> <li>• Outcome and accounting requirements surrounding the McCloud/Sargeant and Matthews Pension cases</li> <li>• Issues surrounding the impact of the Covid-19 pandemic</li> </ul>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Hereford and Worcester Fire Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Yes – these are reviewed as part of the Final Accounts closedown process, at this time there is no requirement for amendment to or new accounting policies.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>No</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>No</p>

## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No
6. Are you aware of any guarantee contracts? If so, please provide further details	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	<p>There is no loss contingency.</p> <p>The authority maintains an Insurance Reserve to meet the costs of uninsured excess payments.</p>
8. Other than in house solicitors, can you provide details of those solicitors utilised by Hereford and Worcester Fire Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>The LGA have instructed Bevan Brittan in relation to FBU Pension Litigation on behalf of the Fire Authorities. The Authority also use Veena Allyson for employment law advice as and when this is necessary.</p>

## General Enquiries of Management

Question	Management response
9. Have any of the Hereford and Worcester Fire Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Other than the use of advisors such as PS Tax and CIPFA FAN, for general queries, the Authority have not used any advisors about specific queries during the year.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	There have been no assets identified that would require a credit loss provision under IFRS 9.



# Fraud

## Matters in relation to fraud

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

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

As Hereford and Worcester Fire 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 & Standards 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 & Standards Committee oversees the above processes. We are also required to make inquiries of both management and the Audit & Standards 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 Hereford and Worcester Fire Authority's management.

# Fraud risk assessment

Question	Management response
<p>1. Has Hereford and Worcester Fire Authority 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 –</p> <p>By staffing the finance function of the Authority with appropriately professionally qualified and experienced officers, who adhere to both organisational ethics and a professional ethics framework.</p> <p>By establishing control systems to reduce risk through financial regulations and standing orders and financial instructions.</p> <p>By regular budget monitoring reports to highlight any unusual movements.</p> <p>By understanding and comparing the underlying position with prior years.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The nature of the FRA business is such that transactions with third parties are limited and no particular class is viewed as high risk.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Hereford and Worcester Fire Authority as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>None.</p>

## Fraud risk assessment

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	The Authority has a Risk Management Process, where risk is reviewed quarterly at Senior Management Board and also by the Authority.
5. Have you identified any specific fraud risks? If so, please provide details  Do you have any concerns there are areas that are at risk of fraud?  Are there particular locations within Hereford and Worcester Fire Authority where fraud is more likely to occur?	No  No  No particular locations are considered to be more at risk to Fraud.
6. What processes do Hereford and Worcester Fire Authority have in place to identify and respond to risks of fraud?	The Authority takes part in the National Fraud Initiative, the Authority also reviews and takes notice of any fraud notifications if they are sent to us.  But no particular area is deemed to be high risk due to the low levels of interaction with third parties.

# Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Hereford and Worcester Fire 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)? If so, please provide details</p>	<p>The Authority uses Worcester Internal Audit Service to independently report on the adequacy of systems. There is separation of duties in operation.</p> <p>No specific areas – the process is generic across the Authority.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>No areas considered to be high risk.</p>

## Fraud risk assessment

Question	Management response
<p>9. How does Hereford and Worcester Fire 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? Have any significant issues been reported? If so, please provide details</p>	<p>Anti-Money Laundering, Anti-Fraud and Corruption, Ethical Framework and Code of Conduct, and Confidential Reporting (Whistleblowing) Policies information are on the staff intranet. These policies are always current, but it is practice to bring them to the attention of staff on an annual basis. As part of the induction process both members and officers are given documentation of a code of conduct setting out key views and instructions on aspects of the business function; this is supported by training at budget-holders meetings and ethical behaviour instruction where appropriate, plus the distribution of relevant leaflets which are subject specific.</p> <p>Confidential Reporting (Whistleblowing) Policy</p> <p>Staff are encouraged to report all irregularities identified in confidentiality. Policies such as the Whistleblowing Policy are in place and are available to staff on the Sharepoint Intranet site.</p> <p>No issues reported.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>The only higher risk areas would be those undertaking higher levels of procurement – Operational Logistics and ICT. These risks are mitigated by the use of Government frameworks or tender processes, which are supervised by the Procurement Officer.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No the nature of the transactions with related parties do not tend to lend themselves to risk.</p> <p>All Senior Managers and Budget Holders are requested annually as part of the Final Accounts process to declare all relationships that may have a third party relationship implication. Members of the Authority also complete a declaration requested by the Committee Services Section which is retained by them and any relevant disclosures posted as required on the Authority website and so is available for public scrutiny.</p>

## Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit &amp; Standards Committee?</p> <p>How does the Audit &amp; Standards 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>The Audit and Standards Committee receives reports from Internal Audit on compliance with internal controls against a risk based plan approved by the Committee. In addition, the Committee receives a regular update on governance arrangements to provide assurance that intended controls are working. This is done through regular review of and adherence to:</p> <ul style="list-style-type: none"> <li>• Code of Corporate Governance – Committee Structure &amp; Role of Members</li> <li>• Standing Orders for the conduct of business and committee process</li> <li>• Scheme of Delegation to Officers</li> <li>• Standing Orders for the regulation of contracts</li> <li>• Financial Regulations</li> <li>• Members allowance scheme</li> <li>• Member development programme</li> <li>• Whistleblowing Policy</li> <li>• Protocol for Member/Officers relations</li> <li>• Gifts and hospitality register</li> <li>• Register of interests for officers</li> <li>• Protocol on the use of Authority resources by Members</li> <li>• Anti-fraud and Corruption Policy</li> <li>• Money Laundering Policy</li> </ul>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

# Law and regulations

## Matters in relation to laws and regulations

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

Management, with the oversight of the Audit & Standards Committee, is responsible for ensuring that Hereford and Worcester Fire 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 & Standards Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

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

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Hereford and Worcester Fire 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 and Treasurer provide advice to the Senior Management Board on compliance with relevant laws and regulations.</p> <p>Internal Audit examine, evaluate and report on arrangements to ensure compliance with legislation and regulations, recommending to management any arrangements to address weaknesses, as necessary.</p> <p>The Strategic Risk Register sets out risk priorities, which will include any potential for changes to existing legislation and regulations and subsequent actions needed to be taken by management.</p> <p>There is an established process for developing Service Policies and Instructions to ensure staff comply with relevant laws and regulations.</p> <p>Lead officers and key staff are in place to ensure changes in statute and regulations are complied with. For example Finance, Human Resources, Committee &amp; Members' Services, Data Management, Asset Management, Fire Safety.</p> <p>The Authority has appointed a Monitoring Officer and a Treasurer, both of whom are responsible for ensuring all applicable statutes and regulations are complied with. The Monitoring Officer will report to the Authority if he/she considers any proposal or decision to be unlawful.</p> <p>The Treasurer is required to report to the Authority if a decision has been made or is about to be made that involves incurring unlawful expenditure or any unlawful action in relation to the financial accounts.</p> <p>Legal, financial and risk considerations are highlighted in reports to the Authority and its Committees.</p> <p>The Authority has a Whistleblowing Policy in place to enable staff to raise concerns regarding malpractice. In addition, the Authority's constitution incorporates Financial Regulations, Standing Orders for the Regulation of Contracts, Standing Orders for the Conduct of Business, the Scheme of Delegations to Officers and the local Code of Conduct for Authority Members to ensure business is conducted in compliance with existing law and regulations.</p>



## Impact of laws and regulations

Question	Management response
<p>2. How is the Audit &amp; Standards Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer and Treasurer provide advice to the Audit and Standards Committee on compliance with relevant laws and regulations.</p> <p>The Committee is responsible for the approval of the Annual Governance Statement and the review of the related assurances which set out the system of internal control and detail the policies and procedures in place. This provides the Committee with assurance that management arrangements are in place for identifying and responding to changes in law and regulations and highlights any significant governance issues arising as a result of such changes.</p> <p>Internal Auditors' reports to the Audit and Standards Committee incorporate issues relating to compliance with legislation and regulations, where appropriate.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>The Monitoring Officer and Treasurer provide advice to the Audit and Standards Committee on compliance with relevant laws and regulations.</p> <p>The Committee is responsible for the approval of the Annual Governance Statement and the review of the related assurances which set out the system of internal control and detail the policies and procedures in place. This provides the Committee with assurance that management arrangements are in place for identifying and responding to changes in law and regulations and highlights any significant governance issues arising as a result of such changes. Internal Auditors' reports to the Audit and Standards Committee incorporate issues relating to compliance with legislation and regulations, where appropriate.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>None that would give rise to a material misstatement.</p> <p>The Authority is still involved (jointly with other FRS) in the investigation and defence of the firefighters' pension claim, in connection with the 2015 pension scheme transitional arrangements and it is participating in the class action being co-ordinated by the LGA in respect of the 'Trucks Cartel'.</p>

## Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Hereford and Worcester Fire Authority have in place to identify, evaluate and account for litigation or claims?</p>	<p>The Strategic Risk Register sets out risk priorities, which would include any potential for litigation or claims and subsequent actions needed to be taken by management.</p> <p>The Authority also has arrangements in place such as the Service Complaints Policy, Grievance Policy and Whistleblowing Policy that can identify potential litigation or claims.</p> <p>The Authority has delegated the Clerk (Monitoring Officer) to decide the action to be taken in respect of legal proceedings and other matters involving the Authority. The Authority has arrangements in place for insurance to protect against costs associated with litigation and claims.</p> <p>Any personal accident claims against the Authority are dealt with by Worcestershire County Council / insurers on the Authority's behalf.</p> <p>The Treasurer has responsibility to account for litigation or claims in the annual accounts that are considered by Audit and Standards Committee and subject to external audit.</p>
<p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p>	<p>No</p>

# Related Parties

## Matters in relation to Related Parties

Hereford and Worcester Fire Authority are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Hereford and Worcester Fire Authority;
- associates;
- joint ventures;
- a body 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 body 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 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 Hereford and Worcester Fire Authority's 2020/21 (prior year) 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 Hereford and Worcester Fire Authority</li> <li>whether Hereford and Worcester Fire 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>There have been no changes to those identified in the 2020/21 financial statements. All relevant information is compiled and provided in the final accounts and these have not changed from those identified in previous years.</p>
<p>2. What controls does Hereford and Worcester Fire Authority have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Individual related party disclosures by senior staff and members, and awareness of major contracts.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Staff work is restricted in areas where this would lead to potential related party issues.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>As detailed in note 3 above.</p>

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom. It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

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

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

## Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Hereford and Worcester Fire Authority will no longer continue?</p>	<p>As part of the Budget Setting/Medium Term Financial Planning process, all potential savings and pressures are identified over the MTFP period. The financial implications of these are then assessed and the impact that they will have on the provision of services to the public. The gap or surplus for the financial planning term is then reported to Senior Management Board and Members. Hereford and Worcester Fire Authority continue to monitor the impact of the wider economy on its operations by reacting to reducing finance settlements in recent years and reviewing the levels of operational workforce to ensure it is in line with the Community Risk Management Plan.</p>
<p>2. Are management aware of any factors which may mean for Hereford and Worcester Fire Authority that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>No</p>
<p>3. With regard to the statutory services currently provided by Hereford and Worcester Fire Authority, does Hereford and Worcester Fire Authority expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Hereford and Worcester Fire Authority to cease to exist?</p>	<p>All statutory Services will continue to be delivered by Hereford and Worcester Fire Service.</p>
<p>4. Are management satisfied that the financial reporting framework permits Hereford and Worcester Fire Authority to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>The financial statements are prepared on a going concern basis, this is confirmed within the narrative forward of the statement – that the s151 Officer confirms that this is the case.</p>

# Accounting estimates

## Matters in relation to accounting estimates

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

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

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

Specifically do Audit & Standards 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 & Standards 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?	Judgements would be required around the outcome and the accounting requirements of the McCloud/Sargeant and Matthews cases and the valuation of property, plant & equipment, though arrangements are in place with the valuers for these to be revalued annually.
2. How does the Authority's risk management process identify and address risks relating to accounting estimates?	The main risk areas relating to accounting estimates are Pensions and Fixed Assets. These risks are addressed by the use of 3 <sup>rd</sup> party actuaries and valuers – so this mitigates the risk of fraud.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	This information is received from the 3 <sup>rd</sup> parties, it is then reviewed by the Finance Department to ensure that it is reasonable and the information is then discussed where relevant with the body responsible for collating it.
4. How do management review the outcomes of previous accounting estimates?	This review is undertaken – the outcomes are reviewed by members of the Finance Department, as part of the budget monitoring function. These outcomes are then used to inform discussions in the coming year.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	There was no requirement for changes.



## Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Management review the skills that were required in the previous years such as the Pension actuary's and the Valuers for PPE. And if there are any additional specialist skills that will be required in the next financial year.
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?	The Authority ensures that the service providers for accounting estimates have the required professional qualifications to undertake the required tasks.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Control is put in place by the use of a Management Letter, which sets out the requirements of the work to be carried out and the deadlines required by the Authority.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <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>	<p>The Pensions estimates are undertaken by specialist actuaries – either a Government Department (GAD) or the County Actuary (Mercers).</p> <p>PPE valuations are reviewed and questioned by the Chief Accountant where movements are identified that are not in line with those expected.</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	Yes. Judgements would be required around the outcome and the accounting requirements of the McCloud/ Sargeant case and the valuation of PPE, though arrangements are in place with the valuers for these to be revalued annually.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	These are reasonable.
12. How is the Audit & Standards Committee provided with assurance that the arrangements for accounting estimates are adequate ?	By sight of the assumption methodologies before accounts are prepared.

## 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	Property valuations are made by the external valuer from West Mercia Police.	Valuer notified of changes to the estate from the prior year.	Use the external valuer (RICS qualified) from West Mercia Police.	Valuations are made in-line with the CIPFA Code of Practice guidance - reliance on expert.	No
Estimated remaining useful lives of PPE	Assets are assigned to asset categories with appropriate asset lives.	Consistent asset lives applied to each asset category.	Use the external valuer (RICS qualified) from West Mercia Police.	The useful lives of property are recorded in accordance with the recommendations of the external RiCS qualified valuer.	No
Depreciation and Amortisation	Depreciation is provided for on property plant and equipment with a finite useful life on a straight-line basis.	Consistent application of depreciation method across assets.	No	The length of the life is determined at the point of acquisition or revaluation.	No
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	Use the external valuer (RICS qualified) from West Mercia Police.	Valuations are made in-line with the CIPFA Code of Practice guidance - reliance on expert.	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non-adjusting events – events after the balance sheet date	The Authority follows the requirements of the CIPFA Code of Practice.	The Treasurer is notified by the Chief Accountant.	This would be considered on individual Circumstances.	This would be considered on individual circumstances.	No
Measurement of Financial Instruments	Measurements are obtained from appropriate sources. The Authority follows the requirements of the CIPFA Code of Practice.	The financial instruments are measured by the Chief Accountant and the accounts reviewed by the Treasurer.	No	The measurements are based upon the best information held at the current time and are provided by experts in their field.	No
Pension Fund Actuarial gains/losses	The actuarial gains and losses figures are calculated by the two actuarial experts (Mercers and Government Actuary Department) These figures are based on making % adjustments to the closing values of assets/liabilities.	For the Firefighters' pension scheme interim and final submissions made to the actuary. The Authority undertakes testing on the data prior to submission to the actuary and responds to queries raised by the actuary on the submission. For the LGPS the Authority responds to queries raised by the administering authorities.	The Authority are provided with an actuarial report by Mercers (LGPS) and Government Actuary Department (Firefighters' Pension Fund).	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.	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provision for liabilities	<p>Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.</p> <p>Provisions are charged as an expense line in the CI&amp;ES in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.</p>	Charged in the year that the Authority becomes aware of the obligation.	No	<p>Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. 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 if it is virtually certain that reimbursement will be received by the Authority.</p>	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Creditor Accruals	Accruals are estimated by reviewing goods and services received prior to the end of the financial year for which an invoice has not been received.	The date of receipt of the goods and services is used in the estimation of the accrual.	No	The use of actual dates of receipt of goods and services gives a low degree of uncertainty.	No



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