

Informing the audit risk assessment for Westminster City Council 2021/22

Name: Joanne Brown
Title: Key Audit Partner
T 07966971604
E joanne.e.brown@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	15
Impact of Laws and Regulations	16
Related Parties	20
Going Concern	23
Accounting Estimates	26
Accounting Estimates - General Enquiries of Management	27
Appendix A – Accounting Estimates	30

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Westminster City Council (WCC) external auditors and WCC Audit and Performance 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 Performance Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the Audit and Performance 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 Performance Committee and supports the Audit and Performance 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 WCC 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 WCC management. The Audit and Performance 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>COVID 19 is likely to still have an impact on the financial statements. The COVID-19 related risks affecting the financial statements will be covered in the narrative report.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by WCC? 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, the reviewed accounting policy document will be sent to GT when the audit starts. IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2022. CIPFA have confirmed that there is no retrospective adjustment required when IFRS 16 is implemented. This means that no prior year comparator is required when the new standard is adopted. Local Authorities have been given till 1st April 2022 to collect their lease data and the new accounting methodology will be implemented in the following years accounts.</p> <p>There is no accountancy impact for IFRS 16 in 21/22. This standard will only impact the 22/23 financial accounts.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>We currently have investments as fixed term deposits, notice accounts and Money Market Funds.</p> <p>We do not invest in derivatives.</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	We're not aware of any loss contingencies or unasserted claims which may affect the financial statements.
8. Other than in house solicitors, can you provide details of those solicitors utilised by WCC during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Michael Carson (Principle Solicitor) updated Paul Jacklin (Grant Thornton audit lead) on 18 th March 2022 (details confidential)

General Enquiries of Management

Question	Management response
<p>9. Have any of the WCC 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</p>	<p>Fraud - None in 2021/22</p> <p>Non-compliance - not aware of any reported instances.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>We have external advisors (RSM) for advisory matters on VAT and SDLT (Stamp Duty Land Tax), we have consulted them on</p> <ul style="list-style-type: none"> • Setting up VAT group for Westminster Housing Investments Ltd • Domestic VAT reverse charge
<p>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</p>	<p>The methodology used to calculate Bad Debt Provision (BDP) depends on the type of debt. Usually, the method is a combination of looking at the nature of the debt (e.g. whether they are by current or former tenants and the going-concern of a business) and the length of the bad debt (e.g. 50% for debts 6-12 months old and 100% for debts over a year old). In general, no changes have been made to the models in 2021/22, apart from areas which have been heavily impacted by Covid19, where we have made more prudent calculations.</p> <p>There is uncertainty in any estimation. The bad debt calculations are based on the most up to date information we have on outstanding aged debt. The amounts or percentage provided for are based on methodologies which are shown to be reasonable based on historic activity. This year, some of those amounts or percentages have increased due to Covid19.</p> <p>There are no treasury investments or loans which will require any impairment.</p>

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

As WCC 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 Performance 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 Performance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Performance 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 WCC management.

Fraud risk assessment

Question	Management response
<p>1. Has WCC 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 WCC risk management processes link to financial reporting?</p>	<p>Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to prevent and detect fraud. These include work carried out by Internal Audit and the Corporate Anti-Fraud Service on overall fraud risk across the Council.</p> <p>There is on-going communication between external audit and responsible officers on emerging technical issues. Financial monitoring also highlights areas of variance within the capital and revenue budgets, which helps management identify areas of material misstatement within the accounts.</p> <p>The Council maintains a fraud risk register which identifies possible frauds to which the authority is exposed. It estimates both the possible impact of a given fraud and the likelihood of it occurring. The register ensures the organisation better understands the fraud-threat environment in which the authorities have to operate. The register is frequently reviewed to ensure that the risks are being appropriately managed, as well as informing and driving the Pro-active Work Programme enabling the Corporate Anti-Fraud service to focus resources on the most relevant fraud risks.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Financial assessments for personal budgets, use of direct payments, welfare benefit, cash handling, procurement fraud have been considered as most at risk, however these have not resulted in values of fraud that would be material to the accounts.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within WCC as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>For the financial year 2021/2022 (1 April 2021 to 30 March 2022) the Corporate Anti-Fraud investigated 558 cases, including 297 new referrals, and concluded 296 investigations. Counter fraud activity identified 142 positive outcomes. Fraud identified has a notational value of over £800,000</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Counter fraud performance is reported to the Audit and Performance Committee who receive reports on internal and external fraud investigated by the Council. This report is intended to brief members of the Committee in respect of work undertaken by the fraud service. Reported to Committee: Audit & Performance Committee – Dec 2021</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within WCC where fraud is more likely to occur?</p>	<p>There are areas within Westminster City Council where the inherent risk of fraud will always be higher than other, for example locations handling cash, or more recently fraudulent applications for Covid business grants, but the fraud risk register helps to ensure these areas are reviewed and fraud risks appropriately managed.</p>
<p>6. What processes do WCC have in place to identify and respond to risks of fraud?</p>	<p>The Council's Anti-Fraud & Corruption Strategy 2020-23 sets out the Council's overall policy on fraud and corruption and states that if fraud, corruption or any misconduct directed against the Council is suspected, this should be reported immediately. The Council's strategy aligns to the national strategy published by the Local Government Association (LGA).</p> <p>The Council maintains a fraud risk register which identifies possible frauds to which the authority is exposed. It estimates both the possible impact of a given fraud and the likelihood of it occurring. The register ensures the organisation better understands the fraud-threat environment in which the authorities have to operate.</p> <p>The register is frequently reviewed to ensure that the risks are being appropriately managed, as well as informing and driving the Pro-active Work Programme enabling the Corporate Anti-Fraud service to focus resources on the most relevant fraud risks. The outcome of completed proactive fraud reviews is reported to the Audit and Performance Committee.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for WCC</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <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>Each year an annual audit plan is developed that take into account the risks of the Council, including fraud risks. Where there is a significant risk a full review to assess the effectiveness of internal controls is undertaken. Additionally, the Corporate Anti-Fraud Service have developed a work programme combining pro-active investigations and service reviews to assess fraud risks within business units to support management in evaluating fraud controls.</p> <p>The Council's Internal Audit & Corporate Anti-Fraud Service reviews policies, procedures and governance arrangements across the Council's Services and promotes a culture of zero tolerance in respect of fraud, corruption and mismanagement. Fraud awareness training is available to service areas where a need has been identified and a fraud internet page informs staff of emerging fraud risks, encourages fraud reporting and to maintains awareness.</p> <p>This is a risk applicable to all budget managers across the organisation as their performance against budget is often a key factor in their annual performance assessment. However, this is a relatively minor risk and is mitigated by the budget monitoring, schemes of delegation and year end processes, as well as realistic budget setting.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>No knowledge of any misreporting.</p>

Fraud risk assessment

Question	Management response
<p>9. How does WCC communicate and encourage ethical behaviours and business processes of its 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>The Council's Internal Audit & Corporate Anti-Fraud Service reviews policies, procedures and governance arrangements across the Council's Services and promotes a culture of zero tolerance in respect of fraud, corruption and mismanagement. Fraud awareness training is available to service areas where a need has been identified and a fraud internet page informs staff of emerging fraud risks, encourages fraud reporting and to maintains awareness.</p> <p>Staff are encouraged and, indeed, expected to raise any concern that they may have, without fear of recrimination. Any concerns raised will be treated in the strictest confidence and will be properly investigated. The Council publicises a clear Whistleblowing Policy aimed to encourage those who work for the Council and have serious concerns about any aspect of the Council's work, to come forward and report their concerns at the earliest opportunity; so that they can be properly investigated. The Council also has an independent confidential reporting system called SAFECALL.</p> <p>Since April 2021, the Corporate Anti-Fraud Service has received two new protected disclosures raising fraud concerns. One was closed following a fact-finding investigation that could not corroborate the content of the allegation, while the second remains under investigation.</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>There are not any significantly high-risk posts identified, although any managerial or supervisory post with the ability to override controls is a fraud risk and therefore management override is something that is reviewed during audits and pro-active fraud risk assessments</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>We are not aware of any related parties or related party transactions which have not been disclosed.</p> <p>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 Council and Committee meetings</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit and Performance Committee ?</p> <p>How does the Audit and Performance 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 outcomes of internal audit reviews and counter fraud activity is reported to the Audit and Performance Committee together with the details on the implementation of internal audit recommendations. Significant issues are brought to the attention of the Committee who may request management to provide a response on specific issues.</p>
<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>The Council publicises a clear Whistleblowing Policy aimed to encourage those who work for the Council and have serious concerns about any aspect of the Council's work, to come forward and report their concerns at the earliest opportunity; so that they can be properly investigated. Since April 2021, the Corporate Anti-Fraud Service has received two new fraud referrals. One was closed following a fact-finding investigation that could not corroborate the content of the allegation, while the second remains under investigation</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No reports have been made.</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 and Performance Committee, is responsible for ensuring that WCC 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 Performance 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 WCC have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the local government regulatory environment that may have a significant impact on the WCC's financial statements?</p>	<p>Any Key Decision or Executive Decision of the Council requires a report which contains a "Legal Implications" section within which Legal Services check and approve that what is being recommended complies with all relevant laws and regulations. Governance Services check that all reports are signed off by a representative of the Director of Law. A similar process is followed for committee reports where there are legal implications or a legal advisor attends committee meetings</p> <p>Executive Directors are authorised to exercise those powers and duties of the Council in relation to the service and activities for which they are responsible (which are not reserved to the Council, the Cabinet/a Cabinet Member or a Committee), and to exercise the professional and managerial responsibilities of their posts. Accordingly officers may exercise only the powers delegated to them and these are exercisable subject to the strategies, policies, and priorities determined by the members of the Council, the Council's Financial Regulations, Procurement Code and Human Resources Policies, and they have to comply with the law and all policies, regulations, orders, codes, protocols, and similar documents approved by the Council, Cabinet, the Standards Committee or a Regulatory Committee.</p> <p>The role of Legal Services and also external solicitors and external counsel in advising Service Departments on their proposed work also helps to prevent non-compliance.</p> <p>In relation to detection of non-compliance, the Council's Financial Regulations outline how the Executive Director of Finance & Resources must ensure an effective internal audit function and is responsible for reviewing financial and management systems and controls throughout the Council, has a duty to act if fraud or corrupt practices are suspected or detected and works with the Tri-Borough Director of Audit, Fraud, Risk and Insurance in reporting to the Audit and Performance Committee on any relevant matter relating to the Council's financial controls.</p>

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 WCC have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the local government regulatory environment that may have a significant impact on the WCC's financial statements?</p>	<p>The Council's Executive Director of Finance & Resource is also responsible for developing, reviewing and maintaining an anti-fraud and anti-corruption policy including whistleblowing, and for advising on effective systems of internal control to prevent fraud and corruption. We understand that the following relevant changes to the regulatory environment are identified:</p> <p>Staff Exit Cap £95,000 Regulations. These were passed and then reversed. We are back at the status quo position with the expectation that Government will attempt again at some point in the future to limit the cost of staff exiting employment (redundancy and pension strain costs);</p> <p>McCloud Regulations. This is still under consultation, with the Government having proposed a solution to the McCloud issue. This relates to the problem of age discrimination having been identified in the Government's implementation of the LGPS change from final salary to career average based pensions back in 2014;</p> <p>LGPS pooling Regulations. This is also under a consultation process with secondary legislation expected later in 2021, if not 2022. This will put the LGPS pooling of assets on a statutory platform, as opposed to government guidance which applies at the moment;</p> <p>Actuarial Period. Future Regulations could change the periods from three years to four years. We are awaiting confirmation following a government consultation process.</p> <p>The Director of Commercial and Financial Management (C&FM) has confirmed that he is not aware of anything else in the regulatory environment which may have a significant impact on the financial statements of the Council or Pension Fund. The Director of C&FM is also not aware of any non-compliance matters either</p>

Impact of laws and regulations

Question	Management response
2. How is the Audit and Performance Committee provided with assurance that all relevant laws and regulations have been complied with?	No reports have identified instances where the Council has not complied with relevant laws or regulations.
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>The Tri-Borough Director of Audit, Risk and Fraud confirmed that no report submitted identified any instances where the Council has not complied with relevant laws or regulations.</p> <p>The Tri-Borough Director of Treasury and Pensions has also confirmed on behalf of the WCC Pension Fund that he is not aware of any such non-compliance. He says that officers have reported one case of suspected pensions fraud (benefits paid post a pensioner's death) to the police and subsequently to the Pension Fund Committee. However the case has not been progressed due to police declining to further the case or mount an investigation</p>
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	Legal has confirmed that we are not aware of any such claims. The Tri-Borough Director of Treasury and Pensions has also confirmed on behalf of the WCC Pension Fund that he is not aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements

Impact of laws and regulations

Question	Management response
<p>5. What arrangements does WCC have in place to identify, evaluate and account for litigation or claims?</p>	<p>Legal Services has a High Risk Register of cases updated by fee earners with conduct of high value financial claims (over £50,000), claims involving potential risk to the Council's reputation or cases which may be politically sensitive all of which could attract media publicity.</p> <p>Principal Solicitors discuss the conduct of these cases with fee earners every 6 weeks</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>The Director of Commercial and Financial Management confirmed that is not aware of anything else in the regulatory environment which may have a significant impact on the financial statements of the Council or Pension Fund.</p> <p>He is also not aware of any non-compliance matters.</p>

Related Parties

Matters in relation to Related Parties

WCC 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 WCC;
- associates;
- joint ventures;
- a body 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 Council, or of any body that is a related party of the Council.

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 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.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in WCC's 2020/21 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and WCC whether WCC has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>All related parties will be reported at year end and as part of the reporting all intercompany transactions will be captured as well as checks made on Companies House to ensure the validity of responses.</p> <p>The Hub Make Lab (CIC) has been closed since the 20/21 financial year end.</p>
<p>2. What controls does WCC have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>All Councillors, ELT members and senior finance staff are requested to submit all related party relationships. If they have none, an email confirming is filed as part of Audit. Following a Related Party disclosure a review of all intercompany transactions takes place. A separate review of Companies House for all members will be completed in 21/22 as part of year end.</p>

Related Parties

Question	Management response
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Reporting materiality is £25k.</p> <p>A clear separation of duty throughout the process of raising a PO for payment, one person raises a requisition, and another (in most instances their line manager) approves the requisition which then creates a PO number. With the exception of Manual Payments, the council adopt a very stringent No PO no Pay policy. In addition any payments above £100k require separate approval by the procurement team.</p> <p>In cases of Manual payments, they require senior management approval and very clear evidence for why the invoice method is not suitable.</p> <p>Larger Capital spend is approved through Cabinet Member meetings and the Wider Capital Review Group as well as senior Finance management.</p> <p>Procurement policy is that for any contracts above £10k there must be 3 tender submissions and a review prior to any contract award.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>All transactions over £100k are required to be approved through the Commercial Gateway Review Board. This governance process allows scrutiny from specialists across WCC including Procurement, Legal and Finance. The council's Financial Regulations set out the governance and approvals required for all spend, amounts over £1.5m requiring Cabinet Member sign-off</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 (Revised 2020). 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 local government 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 WCC will no longer continue?</p>	<p>The Council's performance and financial position is reported to members and senior officers on a regular basis. Audit and Performance Committee receive quarterly performance and financial reports. These set out the Council's financial position and variance against budget. The performance report sets out how the council are measuring up against key performance indicators.</p> <p>The Council's Executive Leadership Team meet on a weekly basis and Executive Directors also have regular departmental leadership meetings to discuss performance and finances. Furthermore, all Cabinet Members have regular briefings that ensure they are aware of the latest developments in a service and are made aware of any issues.</p>
<p>2. Are management aware of any factors which may mean for WCC 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>

Going Concern

Question	Management response
<p>3. With regard to the statutory services currently provided by WCC, does WCC 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 WCC to cease to exist?</p>	<p>Yes, continue to be provided by the Council.</p>
<p>4. Are management satisfied that the financial reporting framework permits WCC 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>Yes, the Council can prepare the statements on a going concern basis and provide a faithful representation of the items in the financial statements.</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 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 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?	Valuations Depreciation Accruals Pension Liability Provisions
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	It is the view of the Section 151 officer that the estimates made within the Statement of Accounts are consistent with the Local Authority Accounting Code of Practice and are both prudent and reasonable
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The Accounting Policies which set out the specific principles, rules and practices applied by the Authority in preparing and presenting the financial statements are approved each year by our audit committee. The financial statements are presented to internal audit each year which set out the accounting estimates used.
4. How do management review the outcomes of previous accounting estimates?	The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No changes in 2021/22

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>The professional judgement of the experts such as valuers etc are used to identify the need for accounting estimates.</p> <p>(refer to appendix A)</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>Specialists are used where there are significant accounting estimates. These are reviewed by Finance and Quality Assurance carried out by Senior Managers</p> <p>(refer to appendix A)</p>
<p>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?</p>	<p>Yearly review of the provisions methodology</p> <p>Accruals panel</p> <p>Valuations challenge sessions and management control checks on the inputs.</p>
<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"> ➤ Management's process for making significant accounting estimates ➤ The methods and models used ➤ The resultant accounting estimates included in the financial statements. 	<p>Refer to the PSA accounting estimate management summary documents for details.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>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?</p>	<p>No</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>Refer to the PSA accounting estimate management summary documents for details and refer to management response.</p> <p>The PSA accounting document outlines understanding of how management developed the estimate. The estimates are then reviewed and tested. Reasonableness of all the workings are checked as per details provided in the document. Management is satisfied with reasonableness for the estimates for 21/22.</p>
<p>12. How is the Audit and Performance Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>Through the annual financial statement report and any specific reports.</p>

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?
Land and buildings valuations	Current value, comprising existing use value. Where prices for comparable properties are available in an active market, properties are valued at market value taking into account the existing use. Where no market exists or the property is specialised, current value is measured at depreciated replacement cost	<p>Officers challenge methods provided and agree reasonableness of estimates .</p> <p>A meeting between both property teams, the valuers and Avison Young (facilitated by finance) will held in March and April to discuss all the properties undergoing valuations and indexation in 2021/22. The current usage of each asset was agreed and documented, and material differences were challenged.</p>	Sanderson Weatherall LLP.	For the rolling 80% of assets that are not subject to an inspection and full valuation, dependant on the level of change recorded, assets will either be individually revalued on a desktop basis (typically where a property specific impairment event has occurred) or index adjusted in line with an appropriate index, such adjustment being applied to a group of assets (if deemed appropriate) that share common characteristics and valuation methodology.	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?
Council dwelling valuations	Current value, comprising existing use value for social housing Dwellings are valued using market prices for comparable properties, adjusted to reflect occupancy under secure tenancies.	Officers challenge methods provided and agree reasonableness of estimates	Sanderson Weatherall LLP.	No change to the methodology is proposed for this year. To prepare the annual revaluation of the HRA portfolio the valuers adopted the index approach. This is in line with the CIPFA guidance set out within "Stock Valuation for Resource Accounting – Guidance for Valuers 2016".	No
Investment property valuations	Investment properties are measured initially at cost and subsequently at fair value. Investment properties are not depreciated but are revalued annually according to market conditions at the year-end.	Officers challenge methods provided and agree reasonableness of estimates	Sanderson Weatherall LLP	Less certainty and a higher degree of caution should be attached to the valuation. SW will produce a document detailing their assumptions made to reflect the current market	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?
Depreciation	<p>Depreciation is calculated on the following bases:</p> <ul style="list-style-type: none"> • Buildings - straight-line allocation over the useful life of the property. • HRA dwellings are depreciated based upon component accounting basis. In the year of disposal a full year's depreciation is charged to the accounts and nothing in the year of acquisition; • Vehicles, plant, furniture and equipment - a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer; • Infrastructure - straight-line allocation over 10 - 15 years. 	<p>Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. Large differences will be explained or investigated.</p> <p>Depreciation is calculated on the value of assets brought forward on 1 April each year. For new assets purchased or whose construction was completed and brought into use during the year, no depreciation is charged in that year. A full year's depreciation is calculated in the following and subsequent years.</p> <p>Disposals and demolished assets will have a full year's depreciation calculated in the year of disposal.</p> <p>Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.</p>	No	The council split land and building for operational properties and HRA for the purposes of depreciation. The split was based on the NBV at 30% for land and 70% Building.	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?
Provisions	Provisions are recognised where the Council has a legal or constructive obligation arising from a past event that will probably require settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation	Discussion between Corporate Finance and wider finance on creation of new provisions. Existing controls for Insurance, NDR and Redundancy.	Yes – Actuary used (not annually) to estimate the Insurance fund provision. Others –No	Degree of uncertainty built into Insurance	No
Accruals	Accrual estimates based on supplier's confirming the invoice amount to be paid, based on previous recurring invoices, working paper of services charged at a rate or other third party evidence.	Every accrual is submitted into an accruals log on a centralised share-point, where it is first reviewed and approved by a Finance Manager's manager. An Accrual Panel member in a different area will also check the estimation of the accrual.	No	Accruals are made for goods/services already received, although the exact cost may not be known and estimates may have to be made for example on previous recurring invoices.	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?
Credit loss and impairment allowances	The methodology used to calculate BDP depends on the type of debt. Usually, the method is a combination of looking at the nature of the debt (e.g. whether they are by current or former tenants and the going-concern of a business) and the length of the bad debt (e.g. 50% for debts 6-12 months old and 100% for debts over a year old). In general, no changes have been made to the models in 2020/21, apart from areas which have been heavily impacted by Covid19, where we have made more prudent calculations.	There are adequate controls in place for the calculation of bad debt provision. The systems used to provide the source data (Avison Young, Capita, Orchard etc.) are reliable. Once the source data has been downloaded or sent to the responsible officer, the responsible officer will then analyse the information, monitor the major changes and query any discrepancies	The management of Temporary Accommodation (TA) is outsourced to RMG who run the WCC Housing Solutions Service which include debt management of tenants in TA. For Council Tax & Business Rates, the impairments are calculated based on aged debt figures that are part of the Collection Fund working papers, which is based on information from Capita and OpStat.	There is uncertainty in any estimation. The bad debt calculations are based on the most up to date information we have on outstanding aged debt. The amounts or percentage provided for are based on methodologies which are shown to be reasonable based on historic activity. This year, some of those amounts or percentages have increased due to Covid19.	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?
Finance lease liabilities	<p>Finance leases have been accounted for via calculating ROU asset and liability and amortising both over life of lease</p> <p>Operating leases have accounted for as expenses in the I&E.</p>	20/21 and soon 21/22 ledger has been evaluated to examine if contracts have leases within them in preparation for implementation of IFRS 16.	Management have used training materials from CIPFA as well as external experts	<p>Assumptions:</p> <p>1. IFRS 16 to go live from 1st April 2022. Under current guidance all operating leases to be identified, but change in method to only start from 21/22.</p> <p>2. 10K de-minimus has been set for identifying leases. Supplier payments below 10K have not been identified yet.</p> <p>3. Historic cost model used to value finance leases. Finance lease assets not revalued.</p>	No change in accounting method this year
PFI Liabilities	Model used as per guidance in CIPFA code.	Strategic Finance Managers will be requested to confirm no existence of service concession	No expert has been used to evaluate existence of service concessions	CIPFA and FRC have not indicated any change to accounting method, hence this method has been assumed to continue on in future years.	No change in accounting method this year



[grantthornton.co.uk](https://www.grantthornton.co.uk)

© 2022 Grant Thornton UK LLP

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.