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Informing the audit risk assessment for City of Wolverhampton Council 2019/20



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.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Authority's external auditors and the Authority's Audit and Risk Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Risk Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the Audit and Risk Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Risk Committee and supports the Audit and Risk Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit and Risk Committee's oversight of the following areas:

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

Purpose

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit and Risk Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	Asset valuations and the net pension liability estimate, have the potential to have a significant impact on the financial statements due to their materiality and the fact that they are based on various assumptions, e.g. investment returns, retirement ages, mortality rates.
2. Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	<p>Accounting policies are kept under review throughout the year by Strategic Finance, but formally reviewed each year by the Chief Accountant in preparation of the financial statements.</p> <p>From 1 April 2020, a new accounting standard - IFRS 16 "Leases" - comes into effect. IFRS 16 introduces a single lease accounting model for lessees, bringing leases on balance sheet. A lessee recognises a right-of-use asset representing its right to use the underlying asset, and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and low value assets. Lessor accounting remains unchanged.</p> <p>The Council will be adopting this standard which is likely to mean that some of the Council's operating leases will instead need to be treated as finance leases – the Council is currently assessing the impact of this change.</p>
3. Is there any use of financial instruments, including derivatives?	Yes, the Council has equity instruments, investments, borrowings, finance leases, PFI arrangements, cash, receivables and payables. These are disclosed in the notes to the accounts.
4. Are you aware of any significant transaction outside the normal course of business?	None as of today (02.01.2020)

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None as of today (02.01.2020)
6. Are you aware of any guarantee contracts?	<p>The Council has provided guarantees to: -</p> <ul style="list-style-type: none"> • a number of organisations at the point they were admitted to West Midlands Pension Fund, to fund any potential pension liability; • Walsall Metropolitan Borough Council for the University of Wolverhampton, in relation to grant funding through the Black Country Local Enterprise Partnerships (LEP); • Barclays for the City of Wolverhampton College.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None as of today (02.01.2020)
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council has utilised locums from its in-house agency and an external agency; they have not worked on open litigation or contingencies from prior years.
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None of the Council's service providers have reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	There are a number of consultants used, mainly for regeneration projects, to provide financial, legal and professional advice. We have also used barristers for external expert advice.

Fraud

Issue

Matters in relation to fraud

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

The primary responsibility to prevent and detect fraud rests with both the Audit and Risk Committee and management. Management, with the oversight of the Audit and Risk Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Risk Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Risk Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Risk Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Risk Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.



Fraud risk assessment

Question	Management response
<p>1. Have the Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The collective processes for closedown, budget monitoring and outturn take into consideration the risk of material misstatement due to error or fraud. Senior finance officers meet regularly to consider any issues arising from budget monitoring and the closedown process. Should any fraud be reported as part of this or any other process, corrective action would be taken.</p> <p>A risk register is also regularly updated and reviewed.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The areas of greatest risk are housing tenancy, council tax, personal budgets, procurement and business rates.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Yes - a report on instances of fraud goes to each of the quarterly Audit and Risk Committee meetings (copies of the reports can be made available upon request).</p>

Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>As with all large organisations there is a likelihood that fraud will be taking place in some shape or form, and there are a small number of ongoing investigations into cases of suspected fraud. The Council takes into account the findings in publications such as the CIPFA “Fraud Tracker Survey” which identifies fraud trends, and those areas more susceptible to fraud. From this a Fraud Risk Register has been developed, which in turn, is used to inform and drive the Counter Fraud plan.</p> <p>The Council also works closely with Wolverhampton Homes in order to help tackle the risk of housing and tenancy related fraud.</p>
<p>5. What processes do the Council have in place to identify and respond to risks of fraud?</p>	<p>The Counter Fraud Team, which sits within Audit Services, leads in raising fraud awareness across the Council and in promoting an anti-fraud culture. The team carries out investigations into areas of suspected or reported fraudulent activity. The team maintains the Council’s fraud risk register and produces and maintains the Counter Fraud Plan. In addition, they lead on the Cabinet Office’s National Fraud Initiative (NFI) exercise.</p>
<p>6. How would you assess the overall control environment for the Council, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Audit Services have given an unqualified opinion on the adequacy and effectiveness of the Council’s internal control system for a number of years. Individual internal audit reviews are undertaken in-year, and Audit Services report back, where appropriate, on individual areas where controls could be improved. Recommendations will then be made in order to improve any weaknesses found, and key recommendations are later followed up.</p> <p>They also report any key control weaknesses at each meeting of the Audit and Risk Committee. The Council’s Counter Fraud Team which sits within Audit Services incorporates a broad skills base which provides the resources to perform counter fraud and investigation activities and strengthens the council’s ability to respond to fraud. There are not any known areas where there is a potential for override of controls or inappropriate influence over the financial reporting process.</p>



Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	There are no known areas for potential misreporting. The fraud risk register, counter fraud plan and audit plan are in place to minimise the potential for misreporting.
<p>8. How do the Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The Council has the following policies and procedures to help raise the awareness of, and combat fraud:</p> <ul style="list-style-type: none"> • Anti-Fraud and Corruption Policy and Procedure • Whistleblowing Policy and Procedure • Anti-Money Laundering Policy and Procedure • Raising Fraud Awareness Guide <p>Where appropriate, these documents are reviewed annually by the Audit and Risk Committee, and available on the internet. The internet page on fraud has been designed to help strengthen the ease in which potential fraud can be reported on-line. Employees learn about business practices and ethical behaviour through the following:</p> <ul style="list-style-type: none"> • Codes of Conduct • induction training • accountability arrangements signed by all senior officers • contracts – standard exclusions • adherence to procurement procedures • aide memoires from Monitoring Officer around gifts & hospitality policy at key times of the year. <p>There are a number of fraud related policies and procedures that encourage this, and include full contact details – including a confidential hotline. The Council's internet site allows on-line reporting.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Senior Officers and Members who have powers to influence decisions are potentially the highest risk posts in respect of fraud and corruption.</p> <p>Senior Officers and Members are required to declare interests on a register of interests and at meetings.</p>

Fraud risk assessment

Question	Management response
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No instances of related party relationships or transactions are known to be fraudulent. Conditions of contact with third parties are in place to mitigate fraud risk, this includes refraining from providing corrupt gifts and payments.</p> <p>The Council's auditors have right of access to third party records if fraud is suspected.</p>
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Risk Committee? How does the Audit and Risk Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>A Counter Fraud Update report is presented to each meeting of the Audit and Risk Committee detailing how the Council is tackling issues around fraud and includes details of any recent investigations into suspected fraudulent activity. The members of the Committee satisfy themselves that the outcomes are appropriate and any improvements in control have been identified.</p> <p>The committee also reviews and approves all of the Council's Anti-Fraud Policies and Procedures on a regular basis. This includes a detailed Counter Fraud Plan charting out the actions to be taken going forward, and the Council's Fraud Risk Register. As part of the Annual Internal Audit Plan, Audit Services undertake annual reviews of many of the Council's key financial systems – consideration of fraud forms part of these.</p> <p>The Council also fully participates in the Cabinet Office's National Fraud Initiative, and other national fraud benchmarking exercises, as appropriate.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Any potential whistle blowing complaints are logged and investigated. Where appropriate disciplinary and prosecution action is taken against the individuals involved.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>The Council has not received any reports under the Bribery Act.</p>

Law and regulations

Issue

Matters in relation to laws and regulations

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

Management, with the oversight of the Audit and Risk Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Risk Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

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

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>A number of controls are in place. Management place reliance on these controls. In addition, there is an annual programme of work from Audit Services which in part covers legal matters. Directors also meet daily at 09.00 to discuss issues of topical concern including any legal matters. SEB also meets weekly for wider briefings across the business.</p> <p>We are not aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements.</p>
<p>2. How is the Audit and Risk Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The findings and recommendations from the work of Audit Services, with key issues being reported back to the Audit and Risk Committee. Also, each Director is required to sign an annual assurance statement, and this helps inform the Annual Governance Statement that is reported to the Audit and Risk Committee.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>None as at today (2.1.2020)</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>None as at today (2.1.2020)</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	All litigation is commenced / defended / settled in consultation with the Monitoring Officer. All prospective prosecutions are evaluated against nationally adopted criteria. An annual appraisal of contingent liabilities is prepared and reported by the Monitoring Officer in consultation with the Risk Manager.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None as at today (2.1.2020)

Going Concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Council? What was the outcome of that assessment?</p>	<p>This will be carried out: -</p> <ul style="list-style-type: none"> • Indirectly through the statement of accounts and regular updates on the Medium Term Financial Strategy. • Directly through a going concern assessment carried out in March 2020, which forms part of the interim audit. <p>The Council considers its current and future financial position in the assessment of its going concern and the Council remains to be a going concern.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council Authority throughout the year?</p>	<p>During the financial year, Strategic Finance support Budget Managers to conduct regular budget monitoring and to forecast each service's outturn for the year. Throughout this process financial assumptions about the current year and future years are discussed and scrutinised by Budget Managers and Strategic Finance, with quarterly forecast outturn updates provided to the Council's Cabinet (Resources) panel. The Council's Medium Term Financial Strategy is an extension of this budget monitoring and forecasting process; any developments or pressures arising as a result of discussions with Budget Managers during the regular budget monitoring process will be incorporated into the Council's Medium Term Financial Strategy, which is also reported to Cabinet.</p>

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	Yes, these are fully reflected in the MTFS as budget pressures.
4. Have there been any significant issues raised with the Audit and Risk Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	None as of today (02/01/2020).
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No adverse financial indicators are currently being reported.

Going concern considerations

Question	Management response
<p>6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Combined Authority's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Despite the significant challenges being faced by the Council we believe that this is currently the case. In addition resources and structures remain under constant review so in the event that any issues are identified these would be addressed quickly.</p>
<p>7. Does the Council have procedures in place to assess their ability to continue as a going concern?</p>	<p>The MTFS in the main provides this assurance, insofar as it demonstrates that the Council is able to deliver services and statutory responsibilities within the projected available resources. Account is, however, also taken of the potential and contingent liabilities that are reported in the statement of accounts, in order to ensure that assets remain sufficient to meet liabilities.</p>
<p>8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?</p>	<p>None as of today (02.01.2020)</p>

Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Audit and Risk Committee ?</p> <p>How has the Audit and Risk Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>External auditors report on going concern through the Audit Findings Report, which is presented to the Audit and Risk Committee. No concerns have been raised.</p>

Related Parties

Issue

Matters in relation to Related Parties

Local Authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the 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 Council perspective but material from a related party viewpoint then the Council must disclose it.

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

Relating Parties

Question	Management response
1. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships ?	Forms re-devised to have prompts including aide-memoire to disclose Directorships. Letters to all councillors (or emails as appropriate) to remind them annually to update interests. Ability for councillors and officers to now update interests in “real-time” on-line through Modern.gov platform from home or wherever that have internet connectivity, and these are requested to be reviewed and updated on a periodic basis by the Council’s Monitoring Officer.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

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

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	None as of today (02.01.2020).
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Accounting estimates are kept under review throughout the year by Strategic Finance, but formally reviewed each year by the Director of Finance in preparation of the financial statements. The outcome of this formal review is reflected in this document (Appendix A), which is presented to the Audit and Risk Committee in March each year. This Committee provides the opportunity for challenge and any queries.
3. How is the Audit and Risk Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Please see above.

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?
Valuation of property plant and equipment	<p>Dwellings- re-valued every 5 years on an existing use-social housing basis by the District Valuer.</p> <p>Other land and buildings including surplus assets:</p> <ul style="list-style-type: none"> • over £1m, valued annually at fair value or depreciated replacement cost. • under £1m, valued as part of a 5 year rolling programme at fair value or depreciated replacement cost. <p>Investment properties - valued annually at fair value or depreciated replacement cost.</p> <p>Since 2015-16, external valuers have been used whereas in prior years this was carried out using the Council's in-house valuers.</p> <p>Community assets, vehicles, plant and equipment, infrastructure and assets under construction-depreciated historical cost.</p> <p>Intangibles- at amortised cost.</p>	<p>The asset revaluations are critically reviewed by the Strategic Finance team with any significant variances from previous valuations or our expectations queried and discussed with the valuers.</p> <p>In the period between valuations a review is carried out annually based on appropriate indices or changes in market conditions to establish whether there has been any material change in the asset values.</p>	Yes – external valuer	Valuations are carried out in accordance with RICS guidance and the Code of Practice on Local Authority Accounting.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation of property plant and equipment	Based on the useful economic life of the asset.	Useful economic life is assessed when valuations are carried out. In addition a list of assets is sent to service managers annually to obtain an update on dilapidated or damaged assets.	Yes – external valuer	The valuer is appropriately professionally qualified.	No
Impairment of property plant and equipment	Impairments are determined as a result of the valuation process and as a result of information provided by members of Strategic Finance, Risk and Insurance and Corporate Landlord.	Critical review of asset valuations and review of market conditions.	Use of external valuer and internal RICS qualified staff.	Valuations are made in line with RICS guidance and the Code of Practice on Local Authority Accounting.	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?
Expected credit losses	Expected credit losses are recognised on all financial assets held at amortised cost (or where relevant Fair Value through Other Comprehensive Income (FVOCI)). Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations.	Critical review of credit risk and debt collection rates from information provided by the Debt Management Team, Finance and trend analysis.	No	Collection rates, historically, have been relatively constant and the levels of bad debt write-offs in prior years indicate that the provision is adequate.	No
Provision for liabilities	Provisions are made where an event has taken place which gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate can be made.	Legal liabilities. Insurance. Non Domestic Rates. Equal Pay	No	Charged in the year the Council becomes aware of the obligation.	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?
Accumulated absence account	Accrual is based on outstanding leave as at 31 March 2020 derived from payroll records.	Reasonableness check based on overall number of days outstanding and prior year comparison	No	The accrual is based on actual leave records for individual employees.	No
Liabilities under PFI schemes	The accounting entries are derived from the PFI accounting models which were prepared, based on the operators financial model, at the commencement of the various schemes.	Models are updated annually from information provided by finance and operational staff.	No	Assumption that there has been no significant change to the parameters in the model. If significant changes are identified the model will be amended to reflect the changes.	No
Valuation of the net pension liability	The valuation is calculated by an actuarial expert, taking into account the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, expected returns on pension fund assets and discount rates.	Reasonableness check of the Actuary's report and the assumptions used.	Yes	Valuations are carried out in accordance with IAS19.	No



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