



**Grant Thornton**

An instinct for growth™

# Informing the audit risk assessment for Warwickshire County Council 2019/20

**Grant Patterson**

Director

T 0121 232 5296

E [Grant.B.Patterson@uk.gt.com](mailto:Grant.B.Patterson@uk.gt.com)

**James McLarnon**

Manager

T 0121 232 5219

E [James.A.Mclarnon@uk.gt.com](mailto:James.A.Mclarnon@uk.gt.com)

**Ellena Grant-Pearce**

Assistant Manager

T 0121 232 5397

E [Ellena.Grant-Pearce@uk.gt.com](mailto:Ellena.Grant-Pearce@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

<b>Section</b>	<b>Page</b>
Purpose	4
General Enquiries of Management	6
Fraud	7
Fraud Risk Assessment	8
Laws and Regulations	13
Impact of Laws and Regulations	14
Going Concern	16
Going Concern Considerations	17
Related Parties	21
Accounting Estimates	23
Appendix A Accounting Estimates	25

## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Warwickshire County Council's external auditors and Warwickshire County Council'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 and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit & Standards Committee. ISA(UK&I) 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 Audit & Standards 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 Warwickshire County Council's management. The Audit, Risk & Assurance 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?	The effects of the Covid-19 and oil prices on global markets and the stock market will potentially hit investment fund values. Their effect on a more general economic slowdown will potentially impact on asset values. More generally any costs to the Authority of providing services to vulnerable people whilst the Covid-19 pandemic continues will impact on our risk reserves.
2. Have you considered the appropriateness of the accounting policies adopted by Warwickshire County Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies are reviewed annually to ensure they are relevant and complete. There have no events or transactions that have required a change to our accounting policies. There have been no new accounting policies adopted for 2019-20, although we have moved to revaluing all of our assets on an annual basis.
3. Is there any use of financial instruments, including derivatives?	<p>Yes – the County Council’s financial instruments consist of investments with fund managers, building societies and other local authorities, cash and cash equivalents, short term debtors and creditors and borrowings with the Public Works Loan Board.</p> <p>We do not make use of derivatives directly, however some funds invested in could make use of derivatives to achieve their overall objectives.</p>
4. Are you aware of any significant transaction outside the normal course of business?	We are currently considering the early payment of future pension contributions for the period April 2020 to March 2023. Council approval to make the early payment has been given, subject to the Strategic Director of Resources judgement about whether the timing and/or market conditions are right. Given the current level of uncertainty as a result of Covid-19 it has been assessed that now is not the right time, but this will be reassessed on a periodic basis.

# 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?	We are not aware of any changes in circumstances that would impair our non-current assets.
6. Are you aware of any guarantee contracts?	We are not aware of any contracts where WCC guarantees the performance of third parties.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	We are not aware of any unasserted claims that would be material to the financial statements
8. Other than in house solicitors, can you provide details of those solicitors utilised by Warwickshire County Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<ul style="list-style-type: none"> <li>• Solicitors for our insurers on pot hole claims etc.</li> <li>• Solicitors for the disposal of land (not a contingency or a claim)</li> <li>• Solicitors for land development disposal and project work (not a contingency or a claim)</li> </ul>
9. Have any of Warwickshire County Council service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None that we are aware of.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<ul style="list-style-type: none"> <li>• Treasury Management</li> <li>• Various Counsel consulted on various matters where required (i.e. employment advice, legal interpretation of contracts/legislation etc)</li> <li>• Risk Management</li> <li>• Procurement and Contract Management</li> <li>• Various subject matter experts to support the Authority's change/transformation programme.</li> </ul>

# 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 & 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 Warwickshire County 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 & 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 Warwickshire County Council's management.



# Fraud risk assessment

Question	Management response
<p>1. Have Warwickshire County Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do Warwickshire County Council's risk management processes link to financial reporting?</p>	<p>We have adopted the CIPFA Code of Practice for Managing the Risk of Fraud and Corruption and this is reflected in our anti-fraud policy.</p> <p>Our process for identifying and responding to the risk of fraud is undertaken via the Preventing Fraud, Bribery and Corruption Framework and the Council's Whistleblowing policy. We are also developing a Fraud Risk Strategy as part of a wider review of the Council's approach to risk. This will come into effect in the 2020-21 financial year.</p> <p>On the basis of these policies and frameworks we have assessed the risk of material misstatement due to fraud as low.</p> <p>Significant risks are actively managed by Corporate Board through the corporate risk register and are reported to Members on a quarterly basis alongside the financial monitoring information.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Some of the key fraud risk areas were identified and highlighted in the Fraud Awareness Week. These were Procurement Fraud and Social Care Fraud. These were covered along with fraud methods which were Cyber Fraud, Social Engineering and Insider Fraud.</p>

# Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Warwickshire County 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>We are not aware of any instances of actual, suspected or alleged fraud. Risk issues are reported at a Strategic level in corporate quarterly monitoring reports. Fraud issues are reported to the relevant senior management and to the Audit &amp; Standards Committee as appropriate. Control issues, fraud, risks and errors captured through the planned internal audit activity and through investigations are reported to management and reported in summary to the Audit &amp; Standards Committee</p> <p>We have not experienced any significant governance failures during the last year and our arrangements continue to be regarded as fit for purpose in accordance with the governance framework.</p> <p>These governance challenges are reflected in the organisation's strategic risk register and have accompanying actions. The risk register highlights the actions taken and successes achieved in addressing the challenges of the past twelve months.</p> <p>A prime purpose of the governance framework is to minimise the occurrence of strategic risks and to ensure that any such risks arising are highlighted so that appropriate mitigating action can be taken.</p> <p>We are satisfied that the challenges identified are addressed by council plans that the actions identified in those plans will address the issues highlighted in our review of effectiveness.</p> <p>Code of Conduct and Council Policies require matters to be reported to the Monitoring Officer. Monitoring Officer reports to statutory officers meeting those matters which are required to be disclosed. Monitoring officer has statutory duties in terms of review and investigation.</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 Warwickshire County Council where fraud is more likely to occur?</p>	<p>There is always a risk of fraud in such a large and complex organisation. However, the governance and control environment, supported by the preventing fraud, bribery and corruption framework helps to mitigate the risk both in terms of the likelihood and impact.</p> <p>We have no particular concerns of areas or locations at risk of fraud that would not be identified through our frameworks.</p>
<p>5. What processes do Warwickshire County Council have in place to identify and respond to risks of fraud?</p>	<p>Preventing Fraud, Bribery and Corruption framework</p>
<p>6. How would you assess the overall control environment for Warwickshire County 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>Our approach is set out in the Annual Governance Statement – which is reviewed by Audit &amp; Standards Committee and approved by Council following lengthy consultation with senior managers across the organisation.</p>

# Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	We have not identified any areas where there is a potential for misreporting.
8. How do Warwickshire County Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?  How do you encourage staff to report their concerns about fraud?  What concerns are staff expected to report about fraud?  Have any significant issues been reported?	<ul style="list-style-type: none"> <li>• Staff Code of Conduct, Member Code of Conduct and Contracts Standing Orders – reviewed each year and where major changes to structures and/or legislation etc.</li> <li>• Fraud Awareness Week and Do the Right Thing Week</li> <li>• Staff Register of interests and additional declarations for Members and senior officers</li> <li>• Register of gifts and hospitality</li> <li>• On-line fraud awareness training</li> <li>• Workers who are not employees of the County Council are required to sign a “code of conduct for workers”</li> </ul> <p>We have put in place proper governance arrangements for overseeing what we do. These arrangements are intended to make sure that we do the right things, in the right way, for the right people, in a timely, open and accountable manner. These arrangements consist of all the systems, processes, culture and values which direct and control the way we work and through which we account to, engage with and lead our communities.</p> <p>We have approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government (2016). Further information is on our website:<a href="http://www.Warwickshire.gov.uk/corporategovernance">http://www.Warwickshire.gov.uk/corporategovernance</a></p> <p>Whistleblowing policy in place and emphasis on behaviours and code of governance. (include behaviours and employee code of conduct). We also have a Fraud Hotline.</p> <p>All concerns should be reported and will then be dealt with as appropriate. This is covered by council intranet page “What should I do if I suspect fraud”.</p> <p>No.</p>

# Fraud risk assessment

Question	Management response
<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>High risk posts are all posts capable of having significant individual influence/control over resources in the absence of adequate controls and division of duties. Risks are managed through general controls such as division of duties, procedures to manage resources, reporting requirements, IT security arrangements, training and professional qualification requirements, risk based internal auditing activity planning, and whistleblowing procedures</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No. Register of Interest and senior officer and Member additional declarations completed annually.</p> <p>All staff and Members are required to declare any interests with related parties that could impact on their role within WCC and also ongoing in any involvement in the procurement of services or where that relationship may have other affects on their work.</p>

# Fraud risk assessment

Question	Management response
<p>11. 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>Terms of Reference for Audit &amp; Standard Committee – extract from Constitution</p> <p><a href="https://warwickshireintranet.moderngov.co.uk/documents/s1400/Section%207%20Responsibilities%20of%20the%20Audit%20and%20Standards%20Committee.pdf">https://warwickshireintranet.moderngov.co.uk/documents/s1400/Section%207%20Responsibilities%20of%20the%20Audit%20and%20Standards%20Committee.pdf</a></p> <p>Reporting on fraud is incorporated into the regular Internal Audit reporting to the Audit &amp; Standards Committee.</p>
<p>912. 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>13. Have any reports been made under the Bribery Act?</p>	<p>No</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 & Standards Committee, is responsible for ensuring that Warwickshire County 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 & Standards 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 Warwickshire County Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to Warwickshire County Council's regulatory environment that may have a significant impact on Warwickshire County Council's financial statements?</p>	<p>Our Constitution sets out the framework to ensure that all officers, key post holders and Members are able to fulfil their responsibilities in accordance with legislative requirements so that we are efficient, transparent, accountable to our citizens and compliant with the law. Roles and responsibilities for individual Members, the Council, Cabinet and senior officers, along with the delegation of statutory powers and executive functions, and protocols on member / officer relations are documented. <a href="http://www.warwickshire.gov.uk/constitution">http://www.warwickshire.gov.uk/constitution</a></p> <p>Assurance is managed by ensuring we have the appropriate people in roles and that the necessary induction has taken place. In addition we operate general controls such as division of duties, procedures to manage resources, reporting requirements, IT security arrangements, training and professional qualification requirements, risk based internal auditing activity planning, and whistleblowing procedures.</p> <p>3<sup>rd</sup> line of defence – internal audit reviews, e.g. pensions administration</p> <p>We are not aware of any changes. Governance issues and local government challenges from new legislation, funding and other pressures are set out at section 5 of the Annual Governance statement. We recognise that the final resolution of the McCloud pensions case is still to be determined. We will be preparing a separate paper setting out our proposed accounting treatment on this issue. We undertake monthly financial reporting to Directorate Management Teams and Corporate Board, where the financial challenge identifies any issues. Separately we have bi-monthly statutory officers meetings, that all legal and senior managers input to, where such issues, if they exist, are raised. Departments that are subject to statutory and regulatory regimes (I.e. health and safety/construction/public health/trading standards) liaise closely with legal and have their own reporting processes. Papers to committee and council require sign off by legal and finance before being advanced and must be seen by Corporate Board. Any Local Government and Social Care Ombudsman determinations that are adverse are reported to members and remedial actions followed. None are significant or likely to effect accounts for this year.</p>



# Impact of laws and regulations

Question	Management response
2. How is the Audit & Standards Committee provided with assurance that all relevant laws and regulations have been complied with?	<p>Regular reporting to committee on all matters covered by forward plan and audit workplan.</p> <p>Through the Annual Governance Statement and through the planning and reporting of a risk based programme of internal audit work each year.</p> <p>Attended by Monitoring Officer or Deputy Monitoring Officer and S151 or Deputy S151 as well as Tier 3 Managers for Finance and Audit. Other Assistant Directors attend as required. This ensures committee can ask the question they feel important to ensure that they have assurance of compliance.</p> <p>Audit &amp; Standards approve draft Contract Standing Orders and must recommend them for approval to Council – this allows them to be robustly challenge officers regarding the compliance with regulations regarding spend.</p> <p>Any key decision is also required to follow constitutional Key Decision procedure which ensures member involvement and oversight.</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?	No.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No material claims ongoing or that we are aware of.

# Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Warwickshire County Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>We undertake monthly financial reporting to Directorate Management Teams and Corporate Board, where the financial challenge identifies any issues. Separately we have bi-monthly statutory officers meetings, that all legal and finance senior managers input to, where such issues, if they exist, are raised.</p> <p>Constitutionally, litigation to be commenced requires delegated authority of the Chief Executive or their nominee. Responses to formal claims are routed via Legal and all appropriate senior managers (including the Monitoring Officer and S151 Officer) are alerted.</p> <p>Employment settlements are subject to approval via a vires arrangement by the Monitoring Officer and S151 Officer.</p>
<p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?</p>	<p>We are currently undergoing a routine tax inspection by HMRC (started in Feb 2020) and will report any material issues raised.</p> <p>We are currently undergoing an Ofsted inspection, although this has now been paused as a result of the Covid-19 and will now be concluded during 2020/21.</p>

# 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
1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for Warwickshire County Council? What was the outcome of that assessment?	Yes. 5 year medium term financial strategy (MTFS) prepared alongside budget which demonstrates plans balanced, prudent and sustainable with all budget reductions needed quantified and no “gap”. A review of the MTFS in response to Covid-19 is underway. There is nothing in the work undertaken to date that would indicate that the authority does not remain a sustainable going concern.
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with Warwickshire County Council’s Business Plan and the financial information provided to Warwickshire County Council throughout the year?	<p>The MTFS was developed alongside the Council Plan and the priorities in both are consistent. The MTFS also includes significant elements of right-sizing (both up and down) to reflect spending trends, demand growth and cost increases reported as part of monthly financial monitoring.</p> <p>Covid-19 will impact on our assumptions going forward. There are anticipated risks around taxbases for business rates and council tax, the cost base for the external provision of services, especially in the care sector, and the current inability to enact some internal efficiency and development savings required to ensure a balanced budget internally. Sensitivity analysis around all of these factors is built into our financial modelling.</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?	Statutory changes/guidelines in relation to Liberty Protection Standard and Domestic Abuse have been funded as part of the MTFS. A contingency is included in the MTFS for future changes e.g. firefighter working time directive and NLW if these are enacted in year or realistic cost estimates can be assessed.
4. Have there been any significant issues raised with the Audit & Standards 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).	No significant issues have been raised.
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?	Up to February 2020 we had paid 90% of invoices within supplier terms. Performance is reported on a monthly basis and remedial actions put in place where any dip in performance is identified.  Towards the end of March, in response to Covid-19 we moved many of our suppliers to immediate payments terms to support their financial sustainability.

## Going concern considerations

Question	Management response
<p>6. Does Warwickshire County Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of Warwickshire County Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Over the last 2 years the County Council has implemented a corporate restructure and a redesign of every service area to increase the capacity to commission services aligned to the council plan. Technical specialist posts have been created to ensure we have staff with appropriate skills/experience in key roles and through our Transformation Board. We approve additional capacity and the use of subject matter experts in any areas where gaps are identified.</p> <p>Performance of all senior staff (tiers 1-4) is managed through our performance framework which includes 180/360 reviews and personal development plans.</p>
<p>7. Does Warwickshire County Council have procedures in place to assess their ability to continue as a going concern?</p>	<p>We operate monthly reporting to Corporate Board to ensure issues are raised at the earliest opportunity. Part of this reporting is to provide commentary on the impact on the MTFS.</p>
<p>8. Is management aware of the existence of events or conditions that may cast doubt on Warwickshire County Council's ability to continue as a going concern?</p>	<p>No.</p>

# Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Audit &amp; Standards Committee ? How has the Audit &amp; Standards Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>The MTFS, our key strategy that underpins our going concern assessment, is approved at full Council as part of the annual budget debate. The Strategic Director for Resources makes specific reference to this in his risk assessment as to whether the budget is balanced and sustainable.</p> <p>Our going concern policy is part of the annual statement of accounts, which are reviewed by the Audit and Standards Committee.</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 authority (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 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 Warwickshire County Council and Pension Fund's perspective but material from a related party viewpoint then Warwickshire County 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
<p>1. What controls does Warwickshire County Council have in place to identify, account for and disclose related party transactions and relationships ?</p>	<p>As part of the closedown of accounts a number of processes have been put into place to determine any related parties and the nature of the relationships that exist for both the authority and staff. As part of those Governance arrangements we request registers of interests declarations are made by all Members and senior officers and that all staff are required to declare any interest or relationships that exist which may affect the authority. We also canvass annually Legal Services and key finance and management staff to identify any partnerships or other related parties and ensure the appropriate disclosures are reported in the financial statements. Key codes of conduct outline responsibilities of those parties in recording and identifying those related parties and interests appropriately.</p>

# 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 Warwickshire County 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 Warwickshire County 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 & Standards Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No.
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes.
3. How is the Audit & Standards Committee provided with assurance that the arrangements for accounting estimates are adequate ?	We quantify the financial impact of estimation and uncertainty. This is reported to Audit and Standards as part of the Statement of Accounts.

## 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	Fair value for land/buildings defined as 'existing use' by the CIPFA Accounting Code of Practice.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2019/20.	Independent valuers	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Estimated remaining useful lives of PPE	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Discussion with internal asset team and where applicable our independent valuers.	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	See above	See above	See above	See above	No
Impairments	Review of all assets undertaken annually	See left.	Discussion with internal asset team as appropriate.	N/A.	No.
Measurement of Financial Instruments	Financial instruments consist of investments with fund managers, building societies and other local authorities, cash and cash equivalents, short term debtors and creditors and borrowings with the Public Works Loan Board. Measured initially at cost and subsequently at amortised cost using the effective interest method.	Knowledge by the Investment team who manages the portfolio in assessing the potential risk in credit losses.	Fund advisers	The portfolio is assessed on an individual borrower for its expected credit losses using: i) Probability of default ii) Loss of given default	No



## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are identified through detailed monthly management accounts which flags any potential issues to management.	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
Bad Debt Provision	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are written off to the Comprehensive Income and Expenditure Account.	Knowledge by the Accounts Receivables team and the Legal Team in likelihood of recoverability and the ageing of the debts. Debt Recovery write-off rules are applied in accordance with Standing Orders.	N/A	N/A	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?
Accruals	We use standard accruals accounting – accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis of the forecast outturn.	N/A.	N/A.	No.
Non Adjusting events – events after the balance sheet date	Monthly management accounts prepared would flag any adjusting/non-adjusting events.	See left.	N/A.	N/A.	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?
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by our actuarial expert. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Authority is the administering body.	The Authority are provided with an actuarial report.	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.







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

© 2019 Grant Thornton UK LLP. | Draft

'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.