

Informing the audit risk assessment for Herefordshire Council 2021/22

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Purpose

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

Background

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

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

Communication

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

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

Purpose

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


General Enquiries of Management

Question	Management response
<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>Ongoing impact of Covid-19 and local authority response to that. Impact on Hereford will be the administration of the Covid-19 grants and correct accounting for that.</p> <p>The DFE have initiated a non-statutory intervention into Childrens' Services and the Council has allocated significant resources to addressing the resulting improvement plan.</p> <p>A Human Rights court case has commenced in respect of a particular case in Childrens' Services. Herefordshire will not be in a place to be able to quantify, if any, the potential amount of damages which may be awarded.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Herefordshire Council? 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>Currently under review. Not anticipating any changes to accounting policies but the review will take place prior to completion of the accounts.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>No.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>Administration of significant amounts of Covid-19 grants on behalf of central government. This has been overseen by changes to the internal audit programme.</p> <p>Herefordshire acted a guarantor for a charity loan (back to 2011). The bank triggered the guarantee clause and this resulted in payment of approximately £310k. The Council has raised a query with the Charity Commission in respect of the action of the charity trustees. Briefing paper is available.</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?	Not currently aware of anything but "impairment" will be considered as part of the production of the accounts.
6. Are you aware of any guarantee contracts? If so, please provide further details	No new guarantee entered into but see (4) above re historic guarantee.
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	Herefordshire Council has triggered a number of early warnings with our contractor Balfour Beatty Living Places which could result in future claims against them.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Herefordshire Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	See Appendix B

General Enquiries of Management

Question	Management response
<p>9. Have any of the Herefordshire Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Link Asset Services – Treasury Management Aecon Quantity Surveyors – review transactions with Balfour Beatty Living Places (commenced March 22) Prince & Peers – Commercial Advisors on Stronger Towns Bids Impact Consultancy & Research – assisted on budget consultation and Citizens Assembly.</p>
<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>Will be reviewed as part of the year end process. Not aware of any at present.</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 Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Herefordshire 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 Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

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

Fraud risk assessment

Question	Management response
<p>1. Has Herefordshire Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>Will be done as part of the closedown process.</p> <p>Herefordshire appointed a Counter-Fraud Specialist in March 2020 and is responsible for reviewing, identifying and responding to fraud.</p> <p>Any suspected incidents of fraud are reported through to this person in line with our Counter Fraud Policy approved by the Audit & Governance Committee and regularly reviewed by them.</p> <p>The Annual Governance Statement processes includes circulation of a questionnaire to be completed by service Directors and this includes a section on risk. The preparation of the contingent liability note will review the current risk register.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Reviewing this as part of the closedown process.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Herefordshire Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>See above re court of protection case.</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>The Risk Register is reviewed regularly by Management Board and is also reported through to the A&G Committee. Furthermore, the Counter-Fraud & Corruption Policy and Counter Fraud & Corruption Strategy is reviewed by Management Board and submitted to Audit & Governance Committee for approval.</p> <p>Quarterly fraud updates are provided on a regular basis, which communicates the latest fraud alerts, trends and counter fraud activity. Within the annual fraud report, a more detailed overview of counter fraud activity is provided to the committee for additional oversight and governance.</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 Herefordshire Council where fraud is more likely to occur?</p>	<p>The Counter Fraud Specialist (CFS) is in the process of undertaking a fraud risk [self]-assessment with Internal Audit (SWAP), to assess fraud risks across the local authority services. The aim will be to subsequently align the fraud risk assessment with the internal audit plan to enable ongoing monitoring and testing of counter fraud controls.</p> <p>Please note that the below information is confidential and NOT recommended for wider public disclosure.</p> <p>The fraud risk assessment is an ongoing development and areas of higher risk to fraud have been highlighted within the Adult Social Care, Business Rates, Council Tax, Grants, Insurance and Blue Badge services. As such, the CFS has been proactively working with these services to strengthen the controls and to reduce the risk of fraud in these areas.</p>
<p>6. What processes do Herefordshire Council have in place to identify and respond to risks of fraud?</p>	<p>Herefordshire Council has an internal Counter Fraud Specialist (CFS) that investigates allegations of suspected fraud. The CFS proactively manages the National Fraud Initiative (NFI) database, to undertake data matching exercises in a number of the Council's services, which assists in the detection of potential fraud and error. Additional processes have been implemented, such as within the pre-payment financial card services, 'Know Your Customer' (KYC) checks are undertaken to assist in prevention of identity fraud.</p> <p>The Local Authority has a Counter Fraud Policy, Whistleblowing Policy, Counter Fraud Strategy, and Fraud Action Plan. Furthermore, the Council has a Fraud Response Flowchart in place, which outlines the process of how fraud referrals are investigated.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Herefordshire Council, including:</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>There are documented procedures for all key business processes which are subject to scrutiny by the internal auditors as part of a programme approved by the A&G Committee.</p> <p>The internal auditors (SWAP) provide an annual assurance statement to the Committee as well.</p> <p>There is always the potential for override of controls or inappropriate influence but no significant defects in controls have been identified and this will be confirmed by SWAP.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Not aware of any.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Herefordshire 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? Have any significant issues been reported? If so, please provide details</p>	<p>Herefordshire Council has a number of relevant Policies that communicates ethical behaviours and guidelines. These include, but are not limited to the following;</p> <ul style="list-style-type: none"> • Counter Fraud & Corruption Policy, Anti-Money Laundering Policy, Whistleblowing Policy, Employee Code of Conduct, Procurement Policy, Information Security Policy and other Policies that provide guidance on ethical practise across the Council's services and suppliers. <p>Staff are encouraged to report all concerns and are provided with multiple different options to make a referral. Employees can report a concern of fraud directly to the Counter Fraud Department using the referral form located on the Council's Fraud Awareness intranet platform. Additionally, a fraud referral can be made through the whistleblowing function to the Council's monitoring officer, through the service areas' line manager (if appropriate), or through Internal Audit.</p> <p>Each member of staff in the Council undertakes mandatory annual fraud awareness training, which provides employees with a basic knowledge on how to prevent, detect and report instances of fraud. The types of fraud which Local Authorities are susceptible to, are explained within the training, and this provides guidance to employees in what type of referrals are expected to be reported.</p> <p>The CFS provided the Annual Fraud Report to the committee, which outlines further details on fraud referrals within the calendar year in 2021. Please see A&G Minutes from the 25th January 2022, which are publicly available.</p> <p><i>Please note that the below information is confidential and NOT recommended for wider public disclosure.</i></p> <p>Within the calendar year in 2022, the CFS has received a further 5 fraud referrals. One referrals related to an internal fraud allegation, detailed below. The other four referrals are considered to be low level.</p> <p>The case of alleged internal fraud has been identified within the Adult Social Care department. The case has been referred to West Mercia Police to investigate the alleged criminal offences. Internally, SWAP is undertaking further internal investigation and assessment of the control weaknesses within the service. Due to the sensitive nature of this investigation, no further information can be provided at this time.</p>

Fraud risk assessment

Question	Management response
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>The Council's fraud risk assessment is undertaken across the Local Authority services. As such, the CFS and Internal Audit includes an assessment of the service / departmental structure, and consideration is placed on the standards of authorisation particular roles have. This is subsequently taken into account within the overarching risk given to the individual service area.</p> <p>These risks are managed by aligning the fraud risk assessment with the Internal Audit Plan, so the Council can actively test the fraud controls in place for any post that is identified as high risk.</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>Related party inquiries are undertaken as part of the closedown process. Declarations are required to be made where changes occur and to reconfirm as part of an annual process overseen by the Monitoring Officer. The Council also maintains an Employee Interests, Gifts and Hospitality Policy.</p> <p>The Council uses the National Fraud Initiative database to undertake data matching exercises on creditors, suppliers and payroll services. This assists the Council in identifying any undeclared related party relationships or transactions.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p> <p>How does the Audit and Governance 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>Please refer to question 4, which outlines how the Council communicates and reports fraud issues and risks to the Audit and Governance Committee. Also refer to the A&G Minutes from the 25th January 2022 which are publicly available.</p> <p>A&G sign off all Policies and have oversight of quarterly/ annual fraud updates and the Internal Audit reports.</p> <p>The outcome of these arrangements are that all policies submitted the committee have been agreed and received positively. The latest Counter Fraud Report was proactively published across local media sources and internally within the Council.</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>See Appendix C – Monitoring Officer 2021 Annual Report on Whistleblowing to Chief Executive and Internal Audit</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No, none.</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 Governance Committee, is responsible for ensuring that Herefordshire 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 Governance 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 Herefordshire Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>The Monitoring Officer (or representative) attends Audit and Governance Committee Meetings and advises members on any areas of concern. The monitoring officer annual report has been replaced with an opinion that feeds into the annual governance statement.</p> <p>There are no changes in 2021/22 that would have a significant impact on the financial statements.</p>
<p>2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through regular reports and presentation of the risk register.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>No, none</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>No, none</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Herefordshire Council have in place to identify, evaluate and account for litigation or claims?	The council identifies this through its internal legal service, audit service and risk register, supported by the Solicitor to the Council and the section 151 officer.
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	Nothing from HMRC. A route VAT inspection did not identify any issues of concern.

Related Parties

Matters in relation to Related Parties

Herefordshire Council 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 Herefordshire Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority, or of any body that is a related party of the Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Authority's perspective but material from a related party viewpoint then the Authority must disclose it.

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

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Herefordshire Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Herefordshire Council • whether Herefordshire Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>On 29 March 2019 The County of Herefordshire District Council became a shareholder in Cyber Quarter Limited, taking a 19% shareholding, at a cost of £1 per share. Cyber Quarter Limited is the company that owns and operates the Midlands Cyber Centre. The remaining shares are held by the University of Wolverhampton.</p> <p>On 1 April 2019 the council entered into a loan agreement with Cyber Quarter Limited for £3.5 million for 25 years with an interest rate of 5.99% and a re-repayment holidays of 5 years from the date of the loan agreement.</p> <p>As of today's date other than the loan the council has not entered into neither does it plan to enter into any transactions with Cyber Quarter Limited.</p>
<p>2. What controls does Herefordshire Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The Year End Finance Team (Revenue and Capital Accountants) discuss the related party note for the accounts and also review the ledger and member and officer declarations of interest to identify any other related parties.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>In line with finance procedure rules. Officers are unable to authorise expenditure to a related party of which they have declared an interest.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Within the normal course of business transactions are controlled through the Council's scheme of delegation, significant transactions outside of this would be escalated for member approval.</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
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 Herefordshire Council will no longer continue?	Review monthly management accounts which are reported through to Management Board and the Chief Executive. The S151 Officer is satisfied that the Council has adequate reserves and the budget is appropriate. No anticipation of a S114 Notice.
2. Are management aware of any factors which may mean for Herefordshire Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	No – this is considered as part of the financial outturn considered by Management Board.
3. With regard to the statutory services currently provided by Herefordshire Council, does Herefordshire Council 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 Herefordshire Council to cease to exist?	Yes. No plans for Herefordshire Council to cease to exist.
4. Are management satisfied that the financial reporting framework permits Herefordshire Council 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?	Yes.

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 and Governance 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 and Governance 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?	Changes to PPE valuations in relation to property assets could have a significant impact.
2. How does the Authority's risk management process identify and address risks relating to accounting estimates?	No direct correlation.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Use external advisors for technical matters and then follow previous years' methodologies for consistency but subject to annual review for fitness-for-purpose.
4. How do management review the outcomes of previous accounting estimates?	Monthly review of management accounts.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	None as yet.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	As in previous years we appoint suitably qualified persons e.g. pension fund actuaries and property valuers.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	We have a number of policies and procedures which are reviewed by internal audit.
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?	Include within the internal audit annual plan.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	Reviewed as part of the management structure and again through the monthly budget monitoring processes.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No change from previous years.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Professional judgement by the independent advisors to the Council.
12. How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Through the Audit Finding Report from the external auditors.

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	Valuation service is procured to obtain professional valuations. All valuations are provided under the CIPFA code of practice and RICS valuation methods.	Through appointing appropriately qualified professionals, holding regular dialogue with the provider and reviewing plus re-performing of calculations	Yes – Wilks Head and Eve LLP	The majority of assets are valued annually and all assets are valued over two years to minimise the risk of mis-statement. A review on the potential market impact on those that haven't been valued is also completed	No
Investment property valuations	The Valuation approach was discussed and agreed between finance, property services and external valuers and is consistent with last year's approach.	Through appointing appropriately qualified professionals, holding regular dialogue with the provider and reviewing plus re-performing of calculations	Yes – Wilks Head and Eve LLP	There is an inherent risk in IP valuations which is completely dependent on the property market. The recovery from the COVID 19 pandemic and the general economic outlook, could impact on the property market but there are currently no signs that is the case.	No
Depreciation	The calculation of depreciation is based on the valuation of an asset and the assessment of useful life. The assessment of useful life is based on the councils accounting policy, which is reviewed annually.	The valuation of the asset is provided by an external valuer. They will also estimate a useful life of buildings. The depreciation methodology is included in the accounting policies and reviewed annually on all classes of non-current assets.	Yes – Wilks Head and Eve LLP for values and lives – officers for calculations	Estimates are reviewed annually	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?
Valuation of defined benefit net pension fund liabilities	The appointed professional Actuaries provide a report detailing the model, method and valuation	HC has representation on the Pensions Fund Committee.	Professional Actuaries are acquired by the Pension Fund Administrators.	The assumptions used in the calculation of the Pension Fund Valuation are reviewed by management for reasonableness.	No
Loans	Treasury Management advisors (Link Treasury Services) provide guidance and model notes to the accounts.	Regular updates & meeting with TM advisors	Link Treasury Services	Link Treasury Services provide the fair values of the Council's loan portfolio (using premature repayment rates and new loan rates).	No
Accruals	Most accruals are system generated so relate to a direct sales or purchase order or invoice so no estimate is used.				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	The more material provisions are in term of NNDR Appeals, legal claims and the provision for Insurance claims. In these cases external providers are used with expertise in the relevant area.	We challenge the assumptions used with the providers through direct meetings, discussions and regular communications.	NNDR Appeals – Analyse Local was used. These were selected as used by many LAs and have good experience in the market. Insurance – An expert report is produced as part of our contract with the insurance brokers, who have past and current knowledge of our claims history and outstanding claims. Legal cases – external counsel will be used	The assumptions will be based on the external provider of the calculations. In terms of Insurance this will be based on Insurance industry markets and climates. In terms of NNDR Appeals this will be based on the climate and court cases. In terms of legal claims this will be based on external counsel estimates of likely damages.	No
Credit loss and impairment allowances	Income streams bad debt provisions are calculating using the system arrears totals and an estimated percentage of non-collection of debt. Working on the assumption that the older the date the higher the percentage of non-collection	Management review the percentages used to ensure that they are set at a prudent level and by looking at the debts being written off against provisions previously made.	Experts not used	Bad debts and impairment allowances are estimated using a consistent methodology and also reviewing the reasonableness of previous year's estimates.	No
PFI Liabilities	The Whitecross and waste PFI are typical PFI arrangements with PFI credits attached to them. The Shaw arrangement was determined to be a PFI type arrangement under IFRIC 12	PFI models reviewed by finance team annually	Waste PFI model agreed with Worcestershire County Council	PFI liabilities are calculated using a consistent methodology and also reviewing the reasonableness compared with previous year'.	No

Appendix B – External Legal Support

Barrister/Solicitor Chambers

IGC/Family Law
11KBW Ltd
1KBW Chambers
36 Group Ltd
39 Essex Chambers
3PB Barristers
Anthony Collins Solicitors LLP
Barrister Chambers
Barrister Chambers at 11KBW
Bevan Brittan LLP
Browne Jacobson LLP
Cloisters
Coram Chambers
Cornerstone Chambers
Cumbria Employment Solicitors Limited
Doughty Street Chambers
Eversheds Sutherland
Five Pump Court Chambers
Forpsych Ltd
Francis Taylor Building
Freeths LLP
Gough Square Chambers
Halcyon Chambers
Harold G Morgan & Associates
Hodnett Legal Services Ltd

Hulse Yazdi Professional Services
Humfrys & Symonds
Irwin Mitchell LLP
James Button and Co
Johnson & Gaunt Solicitors Ltd
Jonathan Evans (4pb)
Kelvin Rutledge
Kings Chambers
Landmark Chambers
Leigh Day Solicitors
LJB
Matthew Wyard
mfg Solicitors
New Court Chambers
No 5 Barrister Chambers
Papyrus
Pendragon Chambers
Pinsent Masons
Red Lion Chambers
Regency Chambers
Sargeants Inn Chambers
Sharpe Pritchard LLP
Shropshire Family Law
St Ives Chambers
ST Johns Chambers

St Philips
St Philips Barristers
The John M Hayes Partnership
Veale Wasbrough Visards
Weightmans
Whatley Recordon Solicitors
Wright Hassall LLP

Appendix C – Monitoring Officer 2021 Annual Report on Whistleblowing to Chief Executive and Internal Audit

The whistleblowing policy includes an annual monitoring report to include a summary of the concerns raised, which department they relate, the posts involved and any lessons learnt. The table below summaries the 8 complaints received this year.

Summary of concerns raised	Department	Post to which concerns relate	Lessons learnt
Practice by a member of staff	Children Services	Social worker	HR already dealing
Service failure	Economy and Place	Registrars	HR already dealing Service review required and being undertaken
Conflict of interest	Economy and Place	Surveyor	None - no evidence
Leadership and management	Children Services	Senior management	Importance of exit interviews Triangulation of information Line of sight of CEX Staff ability to raise concerns
Leadership and management	Children Services	Senior management	As above
Leadership and management	Children Services	Senior management	As above
Suitability of staff member	Children Services	Social worker	HR already aware of it

The aim of this report is to ensure that the council learns from mistakes, does not repeat them and ensures consistency in approach across departments.

Given the YY judgement this year it is not surprising that half of the complaints relate to children services. However what is interesting is that all the concerns this year are related to conduct of our own staff and HR were in the main already involved and dealing with the issue.

The only lesson learnt for the organisation I think is about our exit interviews and how they are used. The chief executive I suggest should be aware of any issues being raised via this route of communication.



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