

Informing the audit risk assessment for West Midlands Combined Authority 2022/23

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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 West Midlands Combined Authority's external auditors and West Midlands Combined Authority's Audit Risk & Assurance 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 Risk & Assurance Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the Audit Risk & Assurance 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 Risk & Assurance Committee and supports the Audit Risk & Assurance 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.

This report includes a series of questions on each of these areas and the response we have received from West Midlands Combined Authority'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 2022/23?	The key events are the Adult Education Budget (AEB) and the Commonwealth Games (CWG) where the WMCA is responsible for the delivery of the Games Transport Plan. There are no new or different accounting issues in relation to the AEB or CWG. They have been highlighted by virtue of their magnitude.
2. Have you considered the appropriateness of the accounting policies adopted by West Midlands Combined Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	The accounting policies are reviewed annually to ensure they are relevant, complete and in accordance with the CIPFA Code of Practice on Local Authority Accounting. There are no new events or transactions that may result in a change or adoption of new accounting policies this year.
3. Is there any use of financial instruments, including derivatives? If so, please explain.	Yes. The Authority's financial instruments consist of investments, cash and cash equivalents, long-term debtors, short-term debtors and creditors, borrowings and transferred debt.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	No, we are not aware of any significant transaction outside the normal course of business.
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	We will be doing an impairment review on our non-current assets as part of our year-end closedown process. Currently, we do not expect any material impairments.
6. Are you aware of any guarantee contracts? If so, please provide further details.	Yes, WMCA has guarantees with Sandwell and Birmingham City Council lodged with the bank in connection with works undertaken at various car parks.
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.	No, we are not aware of any.

General Enquiries of Management

Question	Management response
8. Other than in house solicitors, can you provide details of those solicitors utilised by West Midlands Combined Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?	WMCA uses several external solicitors' firms for a range of mainly non-contentious legal work. In relation to insured risks, litigation is handled by firms instructed by our insurers. We currently have one open issued litigation case which has been outsourced to Eversheds LLP.
9. Have any of the West Midlands Combined Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details.	We are not aware of any cases.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	WMCA consults a wide range of advisors in many areas of its business. None of these are likely to have a material impact on the financial statements.
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>Yes, we have identified the following assets:</p> <ul style="list-style-type: none"> • Investments • Cash and cash equivalents • Loans to group undertakings • Trade debtors

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

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

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

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Risk & Assurance 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 Risk & Assurance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Risk & Assurance 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 West Midlands Combined Authority's management.

Fraud risk assessment

Question	Management response
<p>1. Has West Midlands Combined Authority assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>Yes, the risk is considered to be low.</p> <p>This is undertaken via the Anti-Fraud & Corruption Policy and the Whistleblowing Policy.</p> <p>Key financial systems audit are undertaken annually by Wolverhampton Audit Services and their findings are reported in their annual audit reports which are presented to the Audit, Risk & Assurance Committee. Additionally, their recommendations and observations are acted upon.</p> <p>The risk register is reviewed monthly as part of the monthly management reporting.</p>
<p>2. Are the entity aware of the risks of fraud that may be evident in the entity? This includes the risks of fraud that are specific to the entity's business sector.</p>	<p>Treasury-related transactions.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud within West Midlands Combined Authority as a whole, or within specific departments since 1 April 2022 that affect/have affected the entity? If so, please provide details.</p>	<p>No, we are not aware of any.</p>
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Risk issues including fraud feature as a standing item in the Audit, Risk & Assurance Committee agenda.</p>

Fraud risk assessment

Question	Management response
<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 West Midlands Combined Authority where fraud is more likely to occur?</p>	<p>No, we have not identified any specific fraud risks.</p> <p>Yes, the areas we consider that are the biggest risks are the Adult Education Budget, concessions, ticketing and treasury management. However, the governance and control framework helps mitigate the risk of the likelihood and impact.</p> <p>There are no particular locations where fraud is more likely to occur.</p>
<p>6. What processes do West Midlands Combined Authority have in place to identify and respond to risks of fraud?</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 a financial targets) If so, please provide details</p>	<p>Policies and procedures are published on the Intranet covering theft and fraud and the process staff should follow if they suspect anything. These procedures also state the escalation procedure if required.</p> <p>If potential fraud is reported, the Internal Audit Liaison Officer would be contacted who will then commission Wolverhampton Audit Services to conduct an investigation.</p> <p>We have sound financial processes to ensure stewardship.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for West Midlands Combined Authority, 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>The overall control environment is assessed as robust. We commission Wolverhampton Audit Services to perform internal audits on key areas and processes annually.</p> <p>N/A</p> <p>Our financial reporting processes include a number of controls from layers of checking through to reviews prior to finalisation of our reporting. All financial monitoring reports undergo differing levels of review before publication and public reporting.</p> <p>No. Our procedures and processes are designed to minimise the potential for override of controls.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details.</p>	<p>There is potential for misreporting but this is mitigated by processes and controls in place.</p>

Fraud risk assessment

Question	Management response
<p>9. How does West Midlands Combined Authority communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>This is communicated through the policies and procedures published on the Intranet.</p> <p>Inductions are provided to new staff where they are given an overview of business practices and ethical behaviours and their role in identifying or responding to fraud.</p> <p>Regular team briefing sessions are held where staff can raise any concerns and business practice and ethical behaviour can be reinforced.</p> <p>No significant issues have been reported.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Treasury team.</p> <p>These risks are identified, assessed and managed through Treasury Management Group, clear segregation of duties and segregated approval limits.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>We are not aware of any related party relationships or transactions that could give rise to instances of fraud.</p> <p>Senior officers are required to complete Register of Interests form annually and members are required to declare any relevant interests at Board and Committee meetings. The risks are also mitigated by robust procurement procedures.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Risk & Assurance Committee?</p> <p>How does the Audit Risk & Assurance 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>Policies and procedures are in place and published on the Intranet site for access by all staff.</p> <p>Fraud issues are considered by Internal Audit with a triage process being in place for review and to determine an appropriate response to any claims received.</p> <p>Whilst no cases of potential fraud have been identified within year, the Chair would be kept informed on progress of investigations throughout and the outcome reported to Audit, Risk & Assurance Committee upon completion.</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>Three whistleblowing claims have been received in the year with all having been or are currently being taken through a triage process to determine if a full investigation is required or not.</p> <p>Investigations are underway for one claim with the outcome to be shared with ARAC when concluded.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>We are not aware of any reports being made.</p>

Law and regulations

Matters in relation to laws and regulations

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

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

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Risk & Assurance 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 West Midlands Combined Authority have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>Responsibility for ensuring compliance with relevant laws and regulations lies with the Director of Law & Governance (Monitoring Officer) who advises the WMCA.</p> <p>The Constitution and governance arrangements within the WMCA have been reviewed and confirmed that they are appropriate and robust. All governance arrangements are monitored to ensure that they comply with relevant legislation and are fit for purpose.</p> <p>Individual experts also take responsibility within their own areas of expertise and where relevant appoint external advisors. Any legal risk that is identified is escalated up to the Monitoring Officer for further action.</p> <p>We are not aware of any changes to WMCA's regulatory environment that may have a significant impact on the financial statements.</p>
<p>2. How is the Audit Risk & Assurance Committee provided with assurance that all relevant laws and regulations have been complied with?</p> <p>Is Management aware of any non-compliance with any laws and regulations?</p>	<p>The Chief Audit Executive is the Director of Law & Governance and a qualified solicitor, as well as Monitoring Officer. It is the duty of care of all these roles to ensure laws and regulations have been adhered to. The WMCA legal and governance teams reports to the Director of Law & Governance and are also the custodians of the WMCA Constitution. Governance at the WMCA has also been strengthened by a new Head of Corporate Support and Governance role having been recruited to. The Chief of Audit Executive would flag to the Committee if any breaches to the Constitution had been made. Where the Chief Audit Executive is not present at an Audit, Risk & Assurance Committee, a legal representative is present at the Committee.</p>

Impact of laws and regulations

Question	Management response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details.	None.
4. What arrangements does management have in place to identify, evaluate and account for litigation or claims?	All claims are controlled by the legal team in conjunction with our insurers. Where appropriate, these are taken to the WMCA Board for approval.
5. Has management identified possible litigation and claims which may give rise to a risk of material misstatement?	Whilst the WMCA has a number of potential claims at investigation stage and one issued claim, there are no significant litigation claims that would give rise to a risk of material misstatement.
6. What arrangements does West Midlands Combined Authority have in place to identify, evaluate and account for litigation or claims?	All claims are controlled by the legal team in conjunction with our insurers. Where appropriate, these are taken to the WMCA Board for approval.
7. What knowledge does West Midlands Combined Authority have over the potential litigation or claims that are affecting the entity?	WMCA has full knowledge over potential litigation or claims that are affecting the entity.
8. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details.	No.

Related Parties

Matters in relation to Related Parties

West Midlands Combined Authority are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by West Midlands Combined Authority;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority, or of any body that is a related party of the Authority.

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

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

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in West Midlands Combined Authority's 2021/22 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and West Midlands Combined Authority whether West Midlands Combined Authority has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>There have been no material changes in the related parties.</p>
<p>2. What controls does West Midlands Combined Authority have in place to identify, account for and disclose related party transactions and relationships, including changes from the prior period?</p>	<p>Key officers complete a Register of Interests form detailing their interests. These are reviewed annually.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Robust procurement procedures are in place to provide assurance that all expenditure is carried out on a commercial basis.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>As above.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

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

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

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

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by West Midlands Combined Authority will no longer continue?</p>	<p>WMCA will continue to monitor government announcements and consider any relevant changes in legislation that will impact the number and level of statutory services provided.</p>
<p>2. Are management aware of any factors which may mean for West Midlands Combined Authority that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>We are not aware of any factors which may mean that either statutory services will no longer be provide or that funding for statutory services will be discontinued.</p>
<p>3. With regard to the statutory services currently provided by West Midlands Combined Authority, does West Midlands Combined Authority expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for West Midlands Combined Authority to cease to exist?</p>	<p>Yes, WMCA is expected to continued to deliver the statutory services for the foreseeable future.</p>
<p>4. Are management satisfied that the financial reporting framework permits West Midlands Combined Authority to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes, we are.</p>
<p>5. Whether events or conditions, that individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern were identified?</p>	<p>We have not identified any events or conditions that may cast significant doubt on our ability to continue as a going concern.</p>

Accounting estimates

Matters in relation to accounting estimates

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

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

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

Specifically do Audit Risk & Assurance 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 Risk & Assurance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>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?</p>	<p>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 is the Pension Fund (LGPS) valuation.</p> <p>We have also considered the estimated remaining useful lives of PP&E/depreciation and accruals (namely capital accruals) and although they are material, they do not give rise to the need for, or changes in accounting estimate due to the following reasons:</p> <ul style="list-style-type: none"> • The nature of our assets are mainly infrastructure assets and assets under construction. Useful lives for infrastructure assets will only be affected in the unlikely event that these assets are to be demolished or de-commissioned. Assets under construction are not depreciated but held at cost. • Accruals are based on expenditure incurred in the ordinary course of business that have not yet been invoiced or paid. Where accruals are based on claims, a reconciliation is performed between estimated expenditure as declared by claimant and actual claim submitted post year-end. The accounts will be adjusted if there are significant differences.
<p>2. How does the Authority's risk management process identify and address risks relating to accounting estimates?</p>	<p>The operational risk management process will highlight any changes to circumstances which could lead to an assessment of accounting estimates and/or assumptions may require revision.</p> <p>All risks and opportunities are identified as part of monthly management accounts preparation and provided for consideration by Finance Leadership Team.</p> <p>As part of the annual accounts closedown process, material accounting estimates are reviewed and reconciliations between accruals and claims are performed with any significant differences being adjusted in the accounts.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>Each transaction will be assessed on its own merit and the identification will be based on requirements/criteria set out by the CIPFA's Code of Practice and the applicable accounting standards e.g. IFRS, ISA and IPSAS.</p> <p>On the Pension Fund (LGPS), we commission the West Midlands Pension Fund actuary to undertake this work on our behalf, in accordance with the Code and accounting standards. Actuarial assumptions are being reviewed and assessed for reasonableness.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>This is done via the rigorous monthly management reporting where the basis is reviewed and where applicable a reconciliation between the accrual and submitted claims received. If there are significant differences, the accounts will be adjusted.</p>
<p>5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?</p>	<p>No.</p>
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>New classes of transactions, events and conditions are assessed and specialist skills or knowledge are resourced as appropriate.</p>
<p>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?</p>	<p>This is determined by assessing the activities on their own merit.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>This is done via the rigorous monthly management reporting.</p> <p>On the defined pension benefits, we place reliance on the internal audit carried out annually at the West Midlands Pension Fund where its findings are reported to the West Midlands Pensions Board. Additionally, we have employer representatives present at this Pensions Board. We also receive a briefing note on the actuarial assumptions and these are reviewed for reasonableness.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>The nature and extent of oversight and governance in relation to accounting estimates includes:</p> <ul style="list-style-type: none"> • Agreement/review of assumptions for their appropriateness and reasonableness • Rigorous monthly management reporting where results are reviewed for reasonableness and comparative analysis on the Balance Sheet
<p>10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?</p>	<p>No significant judgements expected over and above those already outlined in Appendix A.</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>We undertake rigorous monthly management reporting and where external experts are used, their assumptions are reviewed for reasonableness.</p>
<p>12. How is the Audit Risk & Assurance Committee provided with assurance that the arrangements for accounting estimates are adequate?</p>	<p>We quantify the financial impact of estimation. This is reported to the Audit, Risk & Assurance Committee as part of the Statement of Accounts.</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of PP&E/depreciation	Each part of an item of PP&E 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 management and project teams and where applicable Bruton Knowles as the valuer.	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No
Accruals	We use standard accruals accounting – accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A	N/A	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 (LGPS)	<p>The actuarial gains and losses figures are calculated by the actuarial expert, Hymans Robertson.</p> <p>These figures are based on making % adjustments to the closing values of assets/liabilities.</p>	WMCA responds to queries raised by the administering authority, City of Wolverhampton Council.	WMCA is provided with an actuarial report by Hymans Robertson who is commissioned by WMPF.	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
Level 3 investment	Valuation is based on our accounting policy for Fair Value Measurement, which follows the fair value hierarchy.	Valuation is carried out in accordance with the Code of Practice on Local Authority Accounting.	WMCA is provided with draft Financial Statements from HTO1/HTO2 LLP.	The valuation method used is earnings based.	No



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