



# Informing the audit risk assessment for Walsall Metropolitan Borough Council 2020/21

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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 Walsall Metropolitan Borough Council's external auditors and Walsall Metropolitan Borough Council's Audit 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 Committee under auditing standards.

### Background

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

This two-way communication assists both the auditor and the Audit 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 Committee and supports the Audit 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 Local Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- 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 Walsall Metropolitan Borough Council's management. The Audit 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 2020/21?	<p>The Covid-19 pandemic effect will have material impact on the financial statements in 2020/21 across a number of areas including:</p> <ul style="list-style-type: none"> <li>Increases in grants income and expenditure due to government support to the economy, administered by local authorities e.g. business rate relief grants, Covid-19 grants to local authorities.</li> <li>Increases in service expenditure due to additional support across communities, vulnerable adults and children.</li> <li>Decreases in service income due to government mandated closure of services e.g. leisure centres, cultural services, household waste recycling centre, car parks etc and the ongoing impact of lockdowns.</li> <li>Delays in delivery of Proud savings due to a need to focus on the response to the pandemic.</li> <li>Potential increases in debtor levels across services and collection fund.</li> <li>Whilst of significance, the council has put in place enhanced governance and reporting arrangements to ensure the impact of the pandemic is managed effectively, and is confident that it will outturn in line with budget for 2020/21.</li> </ul>
2. Have you considered the appropriateness of the accounting policies adopted by Walsall Metropolitan Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	<p>Accounting policies have been reviewed in preparation for the 2020/21 statement of accounts with reference to the CIPFA Code of Practice on Local Authority Accounting. This review has currently not identified any changes required. Formal review of the Council's accounting policies is undertaken annually in April where they are presented to Audit Committee. Accounting Policies in relation to the 2020/21 financial year are therefore due to be reviewed and reported to Audit Committee for approval in April 2021.</p> <p>There have been no events or transactions that require changes to or adoption of new accounting policies.</p>
3. Is there any use of financial instruments, including derivatives? 6	<p>Yes. Financial instruments are accounted for and disclosed as required by IFRS 9 Financial Instruments and The Code Of Practice on Local Government Accounting.</p> <p>The Council does not enter into derivatives.</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?	No.
6. Are you aware of any guarantee contracts?	Walsall Council acts as guarantor in relation to a number of admitted bodies to the West Midlands Local Government Pension Scheme. The level of assets and liabilities for each is reviewed annually and any which are material would be disclosed in the Statement of Accounts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None other than those disclosed within the Contingent Liabilities note within the Statement of Accounts.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Walsall Metropolitan Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>The Council has used the following solicitors during 2020/21, none of which are open litigation.</p> <p>Browne Jacobson Solicitors  Thompsons Solicitors  Eversheds Sutherland LLP  Silks</p>

## General Enquiries of Management

Question	Management response
9. Have any of Walsall Metropolitan Borough Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>Single Accountable Body (LEP Funds)</p> <p>Freeths LLP – legal advice for grant agreements</p> <p>Thomas Lister- property technical advice and valuations, and monitoring on project applicants to LEP funds</p> <p>Cushman &amp; Wakefield - support for Enterprise Zone financial modelling</p> <p>Council</p> <p>Freeths LLP – Saddlers Centre</p> <p>Avison Young – Saddlers Centre</p> <p>Jones Lang LaSalle – Property valuations</p> <p>Arcadis – Town centre regeneration</p> <p>Shopappy – Independent business marketing</p> <p>PWC – Walsall Proud Programme (WPP)</p> <p>Link Asset Services – Treasury Management &amp; Leasing</p>



# Fraud

## Issue

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

As Walsall Metropolitan Borough 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 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 Committee oversees the above processes. We are also required to make inquiries of both management and the Audit 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 Walsall Metropolitan Borough Council's management.

## Fraud risk assessment

Question	Management response
<p>1. Have Walsall Metropolitan Borough 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 Local Authority's risk management processes link to financial reporting?</p>	<p>Yes.</p> <p>An assessment of the key risks to the financial statements is undertaken annually. This covers areas where there is a higher risk of misstatement or potential error and ensures that sufficient controls and checks are in place to mitigate the risk. The assessment includes the review of findings from external audits interim audit of the accounts and internal audits annual review of core financial systems, which includes the risk of fraud, coverage of internal controls including approvals, segregation of duties, potential for override of controls, etc. From these, management are able to gain assurance that key financial, IT and internal control systems are in place and working effectively. Management also ensure that recommendations arising from audits are actioned promptly.</p> <p>The nature of the assessment also includes a review and sign off by the CFO of accounting estimates, judgments and decisions, senior finance officer reviews of working papers of the financial statements, appropriate segregations of duties in respect of entries within the accounts, journal controls, and creditor/debtor balance reviews, ensuring that revenue is appropriately recognised in the accounts.</p> <p>Key procedures are reviewed and kept up to date, and when new systems or policy changes occur (for example the annual review of treasury management (TM) policy statements and practices) training / briefings are provided.</p> <p>Recommendations from internal and external audit reports are actioned promptly and management review progress in implementation. Follow ups are made on No or Limited Assurance audits to ensure action is being taken to improve internal controls and minimise the risk of fraud or error. Progress is reported to Audit Committee.</p>

## Fraud risk assessment

Question	Management response
<p>1. How do the Local Authority's risk management processes link to financial reporting?</p>	<p>Management processes include a review of results of the external auditors audit of the accounts each year and the ISA260 report, which are reported to Audit Committee, and key recommendations are promptly followed up / implemented.</p> <p>The CFO and the Chief Executive are required to provide assurance in the form of the Annual Letter of Representation on matters relating to the financial statements, to which the Monitoring Officer (MO) contributes.</p> <p>Review of arrangements for counter fraud and anti-corruption are undertaken regularly. The last formal change to both the Counter Fraud Policy and the Anti-Money Laundering Policy was undertaken in 2017 and reported to Audit Committee in April 2017, with revised Counter Fraud and Anti-Money Laundering Policies then published.</p> <p>During 2020 a review has been undertaken using the Fighting Fraud and Corruption Locally 2020 resource, which is a local government strategy that provides good practice advice and guidance to local authorities with regards to tackling Fraud and Corruption and is supported by the CIPFA Counter Fraud Centre. This has been utilised to draft an update to the council's Counter Fraud policy which is due to be reported to the Corporate Management Team in March 2021 and Audit Committee in April 2021. The report to Audit Committee in April 2021 will also include an updated work programme to embed the Counter Fraud policy.</p> <p>Training is provided on key policies and procedures including the Code of Conduct, internal controls, risk, etc and appropriate segregation of duties is maintained. Training is also provided in key areas of the Statements and changes in accounting policies and their implications on the statements. The review of the statement of accounts focuses on the suitability of accounting policies and treatments, changes in policy, major areas of judgement such as provisions, and any significant adjustments. Once this has been covered and assurance received, the accounts are approved.</p>

## Fraud risk assessment

Question	Management response
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Treasury transactions and Financial Systems supplier bank set up and amendment are considered to be areas of risk, however the Council has in place segregation of duties processes to reduce these risks. These areas are also tested annually in line with the annual internal audit plan.
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Walsall Metropolitan Borough Council as a whole or within specific departments since 1 April 2020?	No
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	<p>Where fraud or corruption is reported, there are robust mechanisms in place to report on and address these. Internal Audit present regular summary reports on their work activity including where suspected fraud has taken place and has been investigated. Significant breaches of internal control are reported to Audit Committee. Follow up audits are done where there is a No or Limited assurance finding and these are reported to the Committee. The Committee calls in senior managers as appropriate to receive assurance that breaches or significant control weaknesses are being addressed.</p> <p>'Notification of any issues of importance for consideration at a future meeting' is also a standard item on the agenda of each meeting of the Committee which gives a vehicle by which members can be informed of any significant breaches of internal control. Significant breaches of control are reported to the Committee and follow up reports made as appropriate.</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 Walsall Metropolitan Borough Council where fraud is more likely to occur?</p>	<p>No.</p> <p>See response to question 2 above.</p> <p>High fraud risk areas form part of the Internal Audit plan, and this was updated for 2020/21 to also include specific focus on potential areas of higher risk in relation to Covid-19 e.g. business grants, supplier support, governance and controls relating to Covid-19 expenditure etc. Recommendations arising from audits are implemented and kept under review. The current fraud risk register is being reviewed with the aim of aligning fraud risks to individual directorate risk registers and a programme of proactive counter fraud activity is being developed. The council maintains a zero tolerance approach to fraud, including prosecuting fraudsters.</p>
<p>5. What processes do Walsall Metropolitan Borough Council have in place to identify and respond to risks of fraud?</p>	<p>In any organisation the size and complexity of Walsall Council, there is a risk of fraud and whilst this can be mitigated with an appropriate control framework and effective prevention and deterrence strategies, it cannot be fully eliminated.</p> <p>The council has a comprehensive internal control framework, which includes both proactive and reactive counter fraud activity. The council has a clear policy on counter fraud and money laundering and counter fraud arrangements which are communicated to employees (and stakeholders where appropriate e.g. to contractors via contract documentation).</p> <p>All employees (and members) are encouraged to report any concerns about fraud. All employees are issued with an employee Code of Conduct on employment and, during induction, the importance of ethical behaviour is made clear. The Code was updated in 2019. The Code is also referenced in other HR and counter fraud policies and is made available on the intranet. The Code of Governance also sets out responsibilities and expectations in relation to good business practice and ethical behaviour and this was updated and endorsed by Audit Committee on 25th September 2017.</p>

## Fraud risk assessment

Question	Management response
5. What processes do Walsall Metropolitan Borough Council have in place to identify and respond to risks of fraud?	The Council's Behaviour and Standards Framework sets out the values that will help to achieve the Council's vision and priorities. These values underpin the way the Council operates as an organisation. These values are Professionalism, Leadership, Accountability, Transparency, Ethical (PLATE).
6. How do you assess the overall control environment for Walsall Metropolitan Borough Council, including: <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <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>Managers are charged with ensuring there are adequate internal controls in place within their services, which are proportionate to the risk of fraud. The organisation has comprehensive governance arrangements in place, including rules of procedure, finance and contract rules, a scheme of delegation which is regularly updated, an authorised signatory list and services are required to have appropriate segregation of duties which are in place and enforced.</p> <p>The adequacy of controls is reported annually via Internal Audit's Annual Opinion Report on the adequacy of the internal control environment. The report in relation to 2019/20 advised that the Council's governance, risk management and internal control arrangements are substantial in their overall adequacy and effectiveness. The Annual Effectiveness Review of the System of Internal Control and the Annual Governance Statement 2019/20 also reported formally and advised that the system of internal control is adequate overall and there were no significant governance issues to report.</p> <p>Fraud investigation resource is available as required. The current fraud risk register is being reviewed with the aim of aligning fraud risks to individual directorate risk registers and a proactive fraud risk programme is in development, including e-learning and awareness raising.</p>

## Fraud risk assessment

Question	Management response
<p>6. What other controls are in place to help prevent, deter or detect fraud?</p>	<p>Training is provided on key policies and procedures including the Code of Conduct, internal controls, risk, etc and the importance of appropriate segregation of duties being maintained. Training materials are also available via the Learn Portal.</p> <p>In any organisation the size and complexity of Walsall MBC, there is a risk of fraud and whilst this can be mitigated with an appropriate control framework and effective prevention and deterrence strategies, it cannot be fully eliminated.</p> <p>Management are not aware of any instances of controls being overridden.</p> <p>Financial reporting processes are set out in the budget management and control manual, vital skills training for non-financial managers, and are supported by specific procedures and accounting policies.</p> <p>Accounting arrangements are undertaken in accordance with all relevant Codes of Practice. Comprehensive final accounts guidelines and outturn proformas, along with risk assessments of the financial outturn, senior officer review of reports and the accounts, officer review of provisions, reserves, carry forwards, accruals and liabilities, ensure override of controls or inappropriate influence is minimised. Analytical review of the income and expenditure account and balance sheet adds to this. Major variances between years and in years are reviewed for accuracy.</p> <p>The Accounts are independently audited.</p>

## Fraud risk assessment

Question	Management response
<p>6. 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>Walsall MBC, as any Authority, is under financial pressure from reduced government funding and increases in demand and cost pressures, particularly within Adult Social Care, Children's Services and in relation to the impact of Covid-19. However managers are expected to deliver services within the approved budget. It is recognised that changes in demand, legislation, etc. may occur once a budget has been set. The council undertakes a comprehensive risk assessment of the budget and has appropriate processes in place to manage these, including an appropriate level of general reserves and contingencies being in place to manage these scenarios.</p> <p>The council has a sound track record in managing areas of pressure, and appropriate financial mechanisms to manage these.</p> <p>As stated in previous responses, high risk areas in relation to fraud are tested via the internal audit plan. Reports are presented to Audit Committee along with recommendations and these are tracked. This includes a rolling 3 year schools audit plan.</p> <p>Management are not aware of any undue pressure to meet operating or financial targets, and none of the council's consultative vehicles have indicated that this is a problem area.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>See response to 6 above.</p>



## Fraud risk assessment

Question	Management response
8. How do Walsall Metropolitan Borough Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?	All employees are issued with an employee Code of Conduct on employment and, during induction, the importance of ethical behaviour is made clear. The Code was updated in 2019. The Code is also referenced in other HR and counter fraud policies and is made available on the intranet. The Code of Governance also sets out responsibilities and expectations in relation to good business practice and ethical behaviour and this was updated and endorsed by Audit Committee on 25th September 2017. Audit Committee has oversight of the Code of Governance.
How do you encourage staff to report their concerns about fraud?	Updates are provided on counter fraud as appropriate, and when policies are reviewed. Contractors are advised about the council's policies via contract documentation.
What concerns are staff expected to report about fraud?	The employee Code of Conduct, the Code of Governance, and counter fraud policies and the whistle blowing policy provide clear guidance on reporting arrangements for suspected or actual fraud. The revised policies have been communicated to staff and a fraud awareness raising programme is currently being developed for 2021/22.
Have any significant issues been reported?	No significant issues have been identified.
9. From a fraud and corruption perspective, what are considered to be high-risk posts?	The Council's senior management team, S151 and Deputy S151 Officer and in line with question 2 above Treasury Management and Financial Systems based staff.

## Fraud risk assessment

Question	Management response
9. How are the risks relating to these posts identified, assessed and managed.	<p>The Council has established Codes of Conduct and has put in place segregation of duties processes to reduce these risks, and in relation to Treasury Management and Financial Systems these areas are also tested annually in line with the annual internal audit plan.</p> <p>During 2020/21 there was also an increased risk in relation to officers supporting the distribution of the government's business grants programme. However segregation of duties were designed into this process alongside participation in the national business grants scheme assurance programme and additional reviews and testing in this area from internal audit.</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.</p> <p>The Council operates a scheme of delegation and segregation of duty policies in relation to ordering, approving, entering payment details and then making the physical payment. Additionally accounts payable is tested in line with the internal audit annual audit plan. The Council also has in place Contract Rules which set out the required processes to be followed in relation to procurement and tendering of contracts. There is also a requirement for Members and Officers to declare (and keep up to date) any interests in external organisations and related parties. These controls reduce these risks.</p>

## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Audit Committee regularly scrutinise strategic risks and call in risk owners as required for assurance purposes. The Committee has oversight of Internal Audit's work plan, which covers the main areas of internal control risk.</p> <p>There is a robust counter fraud / anti corruption policy in place and resources to support this are included in the Committee's work programme.</p> <p>Where fraud or corruption is reported, there are robust mechanisms in place to report on and address these. Internal Audit present regular summary reports on their work activity including where suspected fraud has taken place and has been investigated. Significant breaches of internal control are reported to Audit Committee. Follow up audits are done where there is a No or Limited assurance finding and these are reported to the Committee. The Committee calls in senior managers as appropriate to receive assurance that breaches or significant control weaknesses are being addressed.</p> <p>'Notification of any issues of importance for consideration at a future meeting' is also a standard item on the agenda of each meeting of the Committee which gives a vehicle by which members can be informed of any significant breaches of internal control. Significant breaches of control are reported to the Committee and follow up reports made as appropriate.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No</p>

## Fraud risk assessment

Question	Management response
13. Have any reports been made under the Bribery Act?	No

# Law and regulations

## Issue

### 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 Committee, is responsible for ensuring that Walsall Metropolitan Borough 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 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>The council has a corporate governance framework in place against which elected members and officers are held to account to act in accordance with the law and regulations. The council has a monitoring officer (MO) to ensure that the council acts lawfully and provides the MO with sufficient resources to enable him to carry out his role. In addition, the council has an Internal Audit section to test and report on compliance and performance against the governance framework.</p> <p>Management gains assurance through various mechanisms, as set out below, however management cannot obtain full assurance, only reasonable assurance, which is gained through its knowledge of the organisation and the controls in place.</p> <p>The various mechanisms are:</p> <ul style="list-style-type: none"> <li>• That the council has robust contract and finance rules and a scheme of delegations in place, which are updated on a regular basis.</li> <li>• The Chief Executive and other corporate officers set out clear expectations in respect of behaviours and conduct in respect of adherence to statutory and council rules, regulations and procedures, supported by a suite of procedures, guidance manuals and procedures advising how to comply and who can provide support and advice in these matters.</li> <li>• Through Executive Director, Director and Head of Service assurances as part of the final accounts process.</li> <li>• Through the work of the Internal and External Auditors,</li> <li>• Through the actions of professional officers across the council complying with the corporate governance framework</li> <li>• Through committee reporting processes where reports requiring decision-making are required to have been consulted on with Finance, procurement and Legal Officers to ensure appropriate advice is given.</li> </ul>

## 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 Walsall Metropolitan Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p>	<ul style="list-style-type: none"> <li>• Through the committee reporting process, which provides for legal comment on all reports where the council is exercising functions.</li> <li>• Through provision of a range of intelligence and updates on legislative changes and their implications including through external means, such as LGA, LGIU, SIGOMA, professional bodies, and internal means such as policy briefings.</li> <li>• To assist the MO in his function the council has a fully staffed internal legal services department that is responsible for ensuring that the council acts lawfully.</li> <li>• A standing item on the monthly management team agenda is entitled 'Issues for the Monitoring Officer'. This allows management team members across Legal and Democratic Services to raise any issues of governance, and actual or potential unlawfulness.</li> </ul> <p>The council has a corporate governance framework in place against which elected members and officers are held to account to act in accordance with the law and regulations.</p> <p>The council has a designated monitoring officer (MO) to ensure that the council acts lawfully, and by law has to provide the MO with sufficient resources to enable him to carry out his role.</p> <p>The council has an Internal Audit section to test and report on compliance and performance against the governance framework, and an Audit Committee and Standards Committee to oversee issues of governance.</p>

## Impact of laws and regulations

Question	Management response
<p>1. What arrangements does Walsall Metropolitan Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>The council has an established Constitution, Codes of Conduct, policies in relation to whistleblowing and counter fraud, which set out expected behaviours and rules in respect of compliance with laws and regulations. There are arrangements in place for legal screening of all decisions coming before the Council, Executive or Committees of the same for a decision, which is incorporated in the report writing protocol. Lawyers attend all decision-making meetings to advise on the law and procedure. The MO, CFO and Chief Executive meet regularly to consider governance issues.</p>
<p>Are you aware of any changes to the Local Authority's regulatory environment that may have a significant impact on the Local Authority's financial statements?</p>	<p>Management are not aware of any changes.</p>



## Impact of laws and regulations

Question	Management response
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Committee gains assurance through various mechanisms, as set out below, however the Committee cannot obtain full assurance, only reasonable assurance, which is gained through its knowledge of the organisation and the controls in place.</p> <p>The various mechanisms include:</p> <ul style="list-style-type: none"> <li>• The Committee has oversight of changes to the Constitution, finance and contract rules and also receives reports detailing significant decisions made under officers delegated powers within the financial year, highlighting the key decisions taken within the council directorates and the officer who took the delegated decision.</li> <li>• Through the Annual Governance Statement and review of the effectiveness of the System of Internal Control.</li> <li>• Through the CFO assurances provided during the sign off of the Statement of Accounts.</li> <li>• Through work in signing off the Management Letter of Representation during the Statement of Accounts (signed by CFO and CEO).</li> <li>• Through this report whereby specific questions are asked of management concerning compliance with laws and regulations.</li> <li>• Through the work of internal and external auditors, and the Chief Financial Officer, assessing and reporting on controls and any breaches.</li> <li>• Through assurances provided by the CFO (Statement of Accounts), Internal Audit (internal controls), the Chief Executive and Leader (AGS).</li> <li>• All reports requiring decision making are required to have been consulted on with Finance and Legal Officers to ensure appropriate advice is given.</li> <li>• The annual review of the effectiveness of the internal control framework.</li> </ul>

## 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 2020 with an on-going impact on the 2020/21 financial statements?	Management are not aware of any instances.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	There are no known actual or potential claims that would affect the statements that have not already been considered in year and accounted for as appropriate. Litigation or claims that arise after the date of this response will be brought to the attention of Audit Committee and external audit if they arise.
5. What arrangements does Walsall Metropolitan Borough Council have in place to identify, evaluate and account for litigation or claims?	<p>The council has procedures in place to ensure litigation and claims are identified, evaluated and accounted for. Procedures are in place to notify the MO of any litigation or claims – see previous responses above.</p> <p>The MO, CFO, and senior legal and finance officers liaise on a regular basis to discuss actual and potential litigation or claims and ensure these are appropriately accounted for. The councils in-house insurance team also work closely with services, legal and finance on these matters.</p> <p>Senior management are required to complete an annual return to confirm any known or potential instances of litigation or claims.</p>

## Impact of laws and regulations

Question	Management response
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	<p>Management are not aware of any such reports.</p> <p>However for completeness there has been one notice of incorrect VAT assessment letter received by the authority during 2020/21 from HMRC relating to VAT treatment of property search fees. This totalled £35,289 and has now been corrected and additional controls put in place to ensure compliance going forward.</p> <p>Furthermore a enquiry is currently underway by HMRC in relation to the National Minimum Wage, where the initial assessment performed by HMRC has identified a number of risks which are predominantly within schools.</p>

# Related Parties

## Issue

### Matters in relation to Related Parties

Walsall Metropolitan Borough Council are required to 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 Walsall Metropolitan Borough Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Local 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 Local Authority, or of any entity that is a related party of the Local 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 Local Authority's perspective but material from a related party viewpoint then the Local 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 disclosed in Walsall Metropolitan Borough Council's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and Walsall Metropolitan Borough Council</li> <li>whether Walsall Metropolitan Borough Council has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>At present there have not been any changes to the related parties disclosed in the 2019/20 financial statements.</p>
<p>2. What controls does Walsall Metropolitan Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A members interests register is maintained by the council's Monitoring Officer. Members are required to confirm their interests every year. All council officers are required to complete an interest declaration upon employment. Upon any change in circumstance officers are required to submit new declarations of interest. This requirement is contained within the Council's employees Code of Conduct. These records are examined by the council's finance officers to identify any potential related parties which are then checked against council's financial records.</p> <p>Examination of the council's relationships with other organisations, questioning of management and reviews of committee reports is also carried out to ensure other potential related parties are identified.</p>

## Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	The Council operates a scheme of delegation and segregation of duty policies in relation to ordering, approving, entering payment details and then making the physical payment. Additionally accounts payable is tested in line with the internal audit annual audit plan. The Council also operates delegations in relation to individuals who are enabled to authorise significant transactions, with the number of individuals authorised to approve transactions above £100,000 normally limited to Directors and above. These controls reduce these risks.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	<p>The Council has not undertaken any transactions outside of the normal course of business.</p> <p>If there were any requirements for significant transactions in this area the controls would be as outlined in the response to question 3 above.</p>

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity'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 entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

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

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

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

## Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Accruals, PPE, Investment properties, Financial Instruments, PFI liabilities, provisions and Pension liabilities are all classes of transactions significant to the financial statements that apply some element of accounting estimate.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	<p>A review of each area requiring accounting estimates is completed to determine whether sufficient professional/expert knowledge is available in house. Where sufficient knowledge is available in house this is utilised and where not available the council will obtain the expert advice from suitably qualified organisations/companies.</p> <p>The outcome of any estimation procedure undertaken by internal/external experts is reviewed by the technical accountancy team, with appropriate segregation, for consistency with expectations and prior methods used/outcomes, with all areas of material movement being investigated/questioned to provide a valid rational for that movement.</p>
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	For key accounting estimates use is made of appropriately qualified experts. Source data will be obtained from council maintained records or published data as required. Methods for accounting estimates are based on the CIPFA Code of Practice and accounting standards. Assumptions are made based on professional judgement and references to code of practice/accounting standard requirements.
4. How do management review the outcomes of previous accounting estimates?	In following year a review is carried out as part of the in year monthly monitoring process for to review previous years accruals and provisions. PPE / Investment property valuations are reviewed as part of the revaluation process in the following year. If the above processes highlight any significant variations in previous estimates then the methodology for undertaking estimates in these areas is reviewed and updated for subsequent years.



## Accounting Estimates - General Enquiries of Management

Question	Management response
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No changes have currently been proposed for the estimation processes in 2020/21. However due to the impact of Covid-19 estimates in relation to impairment allowance for bad/doubtful debts are currently being reviewed to ensure these are provided for at an appropriate level.
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Management review the requirements as contained within the CIPFA code of practice and accounting standards to determine which estimates require input from experts.  Where sufficient expert knowledge is available in house this is utilised and where not available the council will obtain the expert advice from suitably qualified organisations/companies.
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?	Review of materiality of estimate in accounts determines level of controls required. This is based on professional judgement and the level of subjectivity required for the estimates.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	The outcome of any estimation procedure undertaken by internal/external experts is reviewed by the technical accountancy team, with appropriate segregation, for consistency with expectations and prior methods used/outcomes, with all areas of material movement being investigated/questioned to provide a valid rationale for that movement.

## 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"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>Once the outcome of any accounting estimates have been reviewed and validated by the technical accounting team (as described in response to 8 above) there is a further process of internal reporting and approval by the deputy s.151 officer and s.151 officer prior to those accounting estimates being included in the published draft financial statements.</p> <p>This process of review by deputy s.151/s.151 officer is supported by the preparation of a briefing note which highlights all material areas of accounting estimate and provides details of the estimation technique used, the additional reviews which have been carried out by the technical accounting team and rationale for any significant movements.</p>
10. 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)?	Management are not aware of any transactions, events or conditions other than those set out in Appendix A that would require significant judgement.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Accounting estimates and judgements are reported to Audit Committee as part of the various reports seeking approval for Accounting Policies and the Statement of Accounts. A focus on accounting estimates is also included in annual training provided to Audit Committee members in advance of their review and scrutiny of the financial statements to ensure that they have the required skills / knowledge to consider and challenge if required.

## 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	Property, Plant & equipment measured according to CIPFA Code of Practice requirements and outlined in the council's accounting policies	Consistent application	Yes	Based on expert/qualified (both internal and external) professional judgement	No
Investment property valuations	Investment property measured according to CIPFA Code of Practice requirements and outlined in the council's accounting policies	Consistent application	Yes	Based on expert/qualified (both internal and external) professional judgement	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and amortisation	A charge for depreciation is made for all assets with the exception of land. This charge is calculated on a straight line basis dividing the opening NBV plus any enhancements in year by the remaining useful economic life.	Consistent application of depreciation method across all assets.	No	Consistent with accounting policy and asset values derived from expert professional judgement.	No
Estimate remaining useful lives of PPE	For land and property assets the estimated useful life is assessed during valuations and then reduced annually until the next valuation date. For other PPE the UEL is assessed at the point of acquisition and reduced annually.	Consistent application	Yes in relation to some of the Land and Building valuations	Based on expert/qualified (both internal and external) professional judgement	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 and actuarial gains and losses	Fund actuary prepares in accordance with IAS 19 Employee Benefits	Consistent application	Yes Barnett Waddingham fund actuary	Based on expert professional judgement	No
Level 2 investments	Prepared in accordance with CIPFA Coded of Practice	Consistent application	Yes	Based on expert professional judgment	No
Level 3 investments	Prepared in accordance with CIPFA Coded of Practice	Consistent application	Yes	Based on expert professional judgement	No
Fair value estimates	Fair values of financial instruments are provided by an external expert and reviewed internally for values are in line with expectations.	Use of market information for credit defaults and interest rates as at year end.	Yes	Based on expert/qualified (both internal and external) professional judgement	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	Tested against IAS 37 Provisions to ensure that the tests set out in the accounting standard are met.	Consistent application against IAS 37 Provisions	In some instances where warranted.	Based on internal professional judgement	No
Accruals	Accruals are calculated based on whether good and / or services have been received or made by the Council.	Consistent application	No	Based on internal professional judgement	No
Credit loss and impairment allowances	<p>The Council has a number of impairment allowances for sundry debtors, housing benefit overpayments, council tax and business rates.</p> <p>An allowance is determined based on average collection rates.</p>	Use of historical data and any known additional risks.	No	<p>Use of historical data and review of debtors to ensure the level of impairment allowance is aligned to an appropriate level of default.</p> <p>Alternative calculation methods are reviewed on a periodical basis to ensure the Council maintains a prudent impairment allowance.</p>	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities	Finance lease liabilities have been calculated in accordance with IAS17 and CIPFA Code of Practice requirements	Consistent application	No	Based on lease contracts and applying internal professional judgement	No
PFI Liabilities	PFI liabilities have been calculated in accordance with CIPFA Code of Practice requirements	Consistent application	Yes for initial model	Based on PFI contract and applying both external expert and internal professional judgement	No
Non Adjusting events - events after the balance sheet date	All significant events after the balance sheet date are reviewed against IAS10 Events After the Reporting Period	Consistent application	No	Based on internal professional judgement	No



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