The Audit Findings for Walsall Council

Year ended 31 March 2022

Walsall Council

February 2023

Contents

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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 planning 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 the Council or all 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.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and will be presented to the Audit Committee.

Name : Jon Roberts
For Grant Thornton UK LLP
Date : 21 February 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Walsall Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during June-November 2022. Our findings are summarised on pages 5 to 24. We have identified no adjustments to the financial statements which impact on the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have however raised recommendations for management as a result of our audit work at Appendix A. Our follow up of recommendations from the prior year's audit are detailed at Appendix B.

Our work is substantially complete subject to the following outstanding matters;

- receipt of management representation letter; and
- final Manager and Engagement Lead review of the audit file and completion of remaining audit documentation.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Subject to clearance of the above outstanding points, our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have completed our VFM work, which is summarised on pages 25-26 and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to Audit] Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you in April 2022, to reflect any changes to our risk assessment.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 2 March 2023. These outstanding items include:

- receipt of management representation letter;
- final Manager and Engagement Lead review of the audit file and completion of remaining audit documentation.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan in April 2022. We detail in the table our determination of materiality for Walsall Council.

	Council Amount (£000)	Qualitative factors considered
Materiality for the financial statements	10,000	-
Performance materiality	7,500	-
Trivial matters	500	-
Materiality for senior officers remuneration and related party transactions	n/a	Impact of any errors was considered on a case by case basis.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over both automated and manually posted journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • used the work of our IT auditors to identify further transactions posted by users where there could be a risk of inappropriate postings • gained an understanding of the accounting estimates and critical judgement applied and made by management and consider their reasonableness with regard to both corroborative and any contradictory evidence that may exist • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. We did not identify any issues which we consider we need to bring to the attention of the Audit Committee.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of Walsall Council, we have determined that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical frameworks of public sector bodies, including Walsall Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for the Council.	There were no changes to our risk assessment as reported in the audit plan. Notwithstanding that we have rebutted this risk, we still identified an elevated risk assessment for the Council's revenue streams, as they are material. We undertook detailed audit work in response to this elevated risk which included: Accounting policies and systems • evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code • updated our understanding of the Council's business processes associated with accounting for income Fees, charges and other service income • Agreed on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. Taxation and non-specific grant income • Income for national non-domestic rates and council tax is predicable and therefore we conducted substantive analytical procedures • For other grants we sample tested items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. We also undertook tests to address the risk that income has been understated, by not being recognised in the current financial year. No issues arose which we consider we need to bring to the attention of the Audit Committee.
Risk of fraud related to expenditure recognition - PAF Practice Note 10 In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition. Having considered the nature of the expenditure streams of Walsall Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.	There were no changes to our risk assessment as reported in the audit plan. Notwithstanding that we have rebutted this risk, we still identified an elevated risk assessment for the Council's expenditure streams, as they are material. We undertook detailed audit work in response to this elevated risk which included: Expenditure • updating our understanding of the Council's business processes associated with accounting for expenditure • agreeing, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence We also undertook tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year. No issues arose which we consider we need to bring to the attention of the Audit Committee.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings The Council revalues its land and buildings on a rolling, five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date. <u>Land and Buildings</u> Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets. For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset. We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings is a significant risk, which is one of the most significant assessed risks of material misstatement.	The Council used both an internal valuer and external valuers (Avison Young and Cushmans) for its asset valuations during 2021/22. The effective date of the valuation undertaken was 1 January 2022. We undertook the following audit procedures; • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation experts used • wrote to each valuer to confirm the basis on which the valuations were carried out • engaged our own valuation specialists to review the terms of engagement and valuation approach for the Council's internal valuation team • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding • tested the full valuation at 1 January 2022 to understand the information and assumptions used in arriving at valuations, include review of detailed valuation calculations for a sample of assets • reviewed management's assessment of the potential impact of movements in valuations between 1 January 2022 and 31 March 2022 • ensured that key data used as the basis for valuations (such as BCIS build cost information) was supported by external evidence • tested revaluations made during the year to see if they had been input correctly into the Council's asset register and that any revaluation movement had been correctly accounted for in the financial statements • used valuation indices to review valuation movements for assets not revalued in 2021/22 to assess whether there was the potential for a material difference to have arisen between the carrying value of assets and current value. Details of our findings are set out on the following page.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (continued) The Council revalues its land and buildings on a rolling, five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date. Land and Buildings Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets. For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset. We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings is a significant risk, which is one of the most significant assessed risks of material misstatement.	We identified the following issues: **Movements in valuations since date of valuation in 2021/22** • The 2021/22 valuation date for assets valued on a Depreciated Replacement Cost (DRC) was 1 January 2022, as has been the practice for a number of years. These valuations were based on BCIS build cost indices at this date. • The Council undertook a review of movements in BCIS indices between the date of valuation and the year end of 31 March 2022. Due to large movements in the last quarter of 2021/22 this exercise indicated a potential movement in valuations between 1 January 2022 and 31 March 2022 of £6.1m. • This movement is more significant than has been seen in previous years due to the impact of inflation on BCIS rates in late 2021/22. The movement is not material and the valuations have not been adjusted to reflect this figure, but we have recorded this value as an uncorrected misstatement (estimated valuation) • Discussions with the Council have indicated that for 2022/23 the Council's valuer will be implementing arrangements to undertaken the valuation at 31 March rather than at 1 January in order to remove this potential valuation movement. We have raised a recommendation to this effect to ensure that this point is actioned. **Assessment of valuation movements for assets not valued in 2021/22** • The Council does not revalue all assets every year, but adopts a rolling 5 year valuation exercise in line with the requirements of the CIPFA Code of Practice. The Council's valuer then undertakes a review to provide assurance that the carrying value of assets not revalued in year is not materially different to fair value. • As at 31 March 2022 the Council held £50.7m of assets which were not revalued in 2021/22. The Council's review of movements in value since date of last valuation indicated a potential increase in value for these assets of £5.8m. Our own assessment using independently sourced indices indicated a potential increase in value of £4.1m. • Both of these figures are below our materiality of £10m and as such the Council has complied with the requirements of the CIPFA Code to demonstrate that the carrying value of assets not revalued in year is not materially different to fair value. No adjustment to the financial statements in relation to these differences in valuation is proposed as the valuation approach taken by the Council is in line with the requirements of the CIPFA Code. **Review of land valuations in 2021/22** The Council's valuer has reviewed land values related to DRC assets in 2021/22 and concluded that there has been no movement in values compared to 2020/21. We have challenged this view as based on information seen elsewhere, both nationally and at neighbouring authorities, land values have increased by between around 3% and 7%. Based on a total land valuation of £77.7m this would equate to a potential uplift in land valuations of £2.4m and £5.3m. The Council's valuer has provided further evidence to support the view taken that there has not been a movement in land values for Walsall in 2021/22. Our own assessment based on valuation data for other authorities as referenced above also confirms that there is not a material misstatement in the valuations. Having reviewed the evidence provided we are satisfied that the approach taken by the Council to the valuation of land for 2021/22 is reasonable and the value is not materially misstated.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the pension fund net liability as a significant risk, which is one of the most significant assessed risks of material misstatement.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluated the design of the associated controls • evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liabilities • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtained assurances form the auditor of the West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund's financial statements. We identified the following issues • The IAS19 report originally provided by the actuary for the West Midlands Pension Fund was reissued following production of the draft accounts for Walsall Council. The revised report increased asset values by £6.813m. The draft financial statements have been adjusted to reflect this revised figure. • The assurances provided by the auditor of West Midlands Pension Fund included notification of an unadjusted error in the pension asset values at 31/3/22 for the fund. The share of this error for Walsall was in total £6.97m (understatement of asset value). The draft financial statements have been adjusted to reflect this revised figure. As a result of the above two issues, the pension asset figure in the final financial statements has been increased by £13.783m compared to the original draft accounts.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of investments held at fair value The Council holds material investments, which includes investments held at fair value. Valuation of these investments is subject to a high degree of judgement and as such the valuation of these investments is considered to be a significant estimate by management in the financial statements. We identified the valuation of investments held at fair value as a significant risk.	In respect of the Council's investment in the CCLA Property Fund (valued at £32.3m), we have agreed the valuation to direct confirmation from CCLA. In order to determine the value of the Council's investment in Birmingham Airport Holdings Ltd (valued at £14.7m), management commissioned a review to ascertain the valuation of the investment as at the balance sheet date using an earnings based approach. Earnings multiples are based on an average of the lower-quartile earnings and transaction multiples for the industry, in this case, airports. We have: • evaluated management's process in determining the fair value through use of an expert • appointed our own internal experts to review the valuation and appropriateness of the methodology applied • considered the reasonableness of the estimate • reviewed the adequacy of the disclosure of the estimate in the financial statements. No issues arose which we consider we need to bring to the attention of the Audit Committee.

2. Financial Statements - Other risks

Risks identified in our Audit Plan	Commentary
Valuation of Infrastructure Assets The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. Walsall Council has material infrastructure assets, at a gross /net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance.	The Council has amended disclosures in the financial statements to present infrastructure assets in line with updated CIPFA requirements. This has involved amending the disclosures to show the net book value of infrastructure assets (£144m) and to remove disclosures of gross cost and depreciation. We have reviewed movements in infrastructure assets recorded in 2021/22, and have tested the figures for additions and depreciation applied. No issues were noted from our testing.
Completeness of non-pay operating expenditure Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. Management also undertake an assessment of the levels of grant income received in the financial year to be deferred to future years based on the specific terms and conditions of funding. We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.	We have • evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness • gained an understanding of the Council's system for accounting for non-pay expenditure • tested a sample of balances included within trade and other payables • tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period. • tested a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period No issues arose which we consider we need to bring to the attention of the Audit Committee.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
Heritage assets The Council holds heritage assets with a book value of £33,961k. This value is based on an insurance valuation undertaken in 2017 which supported £31,555k. The heritage asset register includes a further £2,406k of assets which were not covered by the 2017 valuation.	Due to the nature of heritage assets, there is unlikely to be a material movement in valuation between financial years and as such the valuation as at 31 March 2022 is not materially misstated. However, given the time since the last insurance valuation was undertaken, and the fact that this did not cover £2,406k of assets included on the heritage asset register, we consider that the Council should obtain an updated valuation for 2022/23.	The Council should obtain an updated valuation for 2022/23.
IT Control deficiencies During 2021/22 our IT audit team carried out a follow on review of IT controls following a detailed review in 2020/21.	The review undertaken identified two deficiencies in relation to which we raised recommendations. These related to the need to address potential risks for: Segregation of duties - Administrative access to Oracle Fusion has been granted to users who have financial responsibilities Oversight of generic user accounts – monitoring of the use of four default generic user account which have been assigned to Evosys. A separate detailed report has been issued and an action plan agreed with the Council.	We carried out year end journals testing to review all postings made by accounts identified by our IT auditors as representing a potential risk. We identified no concerns or issues relating to the postings made during 2021/22.
Review of accounts presentation and disclosure We undertook a detailed presentation and disclosure review of the draft 2021/22 financial statements and raised a number of presentational and disclosure issues.	Key issues noted by the review included the need for: • Further disclosure around the impact of the presentational restatement of the CIES undertaken in 2021/22 • Reclassification within the financial instruments note of Money Market Funds totalling £35m from held at cost to held at fair value through profit and loss. • Updates to the disclosures to notes on critical judgements and estimation uncertainty.	We have agreed amendments arising from the accounts review with the Council who have agreed to update the accounts to reflect these.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £361.3m	Other land and buildings comprises £286m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£74.4m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end, these assets include surplus assets and community assets. The Council uses an internal valuer to complete the valuation of properties as at 1 January 2022 on a five yearly cyclical basis. All DRC assets are revalued each year. The valuer has based DRC valuations on BSIC indices as at 1 January 2022, and EUV valuations on comparable market information and/or an assessment of yields and rental income for properties. Management has considered the year end value of non-valued properties and the potential valuation change in these assets based on application of relevant indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties. The total year end valuation of land and buildings was £361.3m, a net increase of £8.8m from 2020/21 (£352.5m).	As noted on page 10, an assessment of potential valuation movements between the date of valuation for DRC assets of 1 January 2022 and the year end has identified a potential difference of £6.1m. This is higher than in previous years due to the impact of inflation on BCIS indices in the last quarter of 2021/22. Due to the value of the movement in 2021/22 we have flagged this as an unadjusted misstatement relation to the valuation of land and buildings.	Grey

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £608.2m	The Council's net pension liability at 31 March 2022 is £608.2m (PY £720.2m) relating to West Midlands Pension Fund. The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial funding valuation is required every three years. The latest full actuarial funding valuation was completed as at 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £178m net actuarial gain recognised in the Comprehensive Income and Expenditure account during 2021/22.	See audit comments below	Light purple

Audit Comments

We have

- Undertaken an assessment of management's expert
- Assessed the reasonableness of the actuary's approach and of any changes compared to the prior year
- Used PwC as an auditors expert to assess actuary and assumptions made by actuary – as set out below

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.7%	2.7% - 2.75%	
Pension increase rate	3.2%	3.15% - 3.3%	
Salary growth	4.2%	0.5% to 2.5% above pension increase rate	
Life expectancy – Males currently aged 45 / 65	22.9/21.2	Confirmed consistent	
Life expectancy – Females currently aged 45 / 65	25.4/23.6	Confirmed consistent	

- Sought explanations directly from the actuary for queries arising from review of the 2020/21 valuation and underlying assumptions.
- Reviewed the completeness and accuracy of the underlying information used to determine the estimate
- Reviewed the reasonableness of the Council's share of LGPS pension assets.
- Assessed the adequacy of disclosure of estimate in the financial statements

We have received assurances from the auditor of West Midlands Pension Fund on the accuracy of membership data, contributions, benefits and investment values as held by the Pension Fund.

As set out on page 11, since the Council prepared draft accounts further information has become available on pension asset values. This has led to an increase in pension asset values of £13.783m in the final financial statements compared to the draft financial statements.

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £7m (2020/21 - £8.8m)	The Council is responsible for repaying a proportion of successful rateable value appeals. Management uses an external valuer, Wilks Head and Eve, to calculate the level of provision required. Wilks Head and Eve's calculation is based upon the latest information about existing appeals, future appeals and the likely loss based on previous success rates.	We consider that management's estimate is reasonable, based on • An assessment of competence, independency and objectivity of management's expert • Appropriateness of the underlying information used to determine the estimate • Reasonableness of the increase in the estimate • Adequacy of disclosure of the estimate in the financial statements. The NNDR appeals provision was overstated by £3.8m in the draft financial statements as the Council had posted in year movements incorrectly. Council finance staff identified this error and have corrected it in the updated financial statements.	● Light purple

Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £11.5m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £11.5m, compared to £8.1m in 2020/21. In 2020/21 the Council changed the basis of the calculation of MRP from straight line to an annuity basis as, in the Council's view, this better reflects the time cost of money going forwards for capital investments made by the Council. The Council also amended the calculation to include a set-aside for the Saddlers Centre, which had not previously been included in the MRP calculation. This year's calculation is consistent with the previous year. The increase in the figure in 2021/22 compared to 2020/21 is largely as a result of the annuity basis of calculation, and the annual charge is forecast to rise over coming years.	Based on our review of the MRP policy and calculation, we consider that the policy and MRP calculation are in line with statutory guidance. The Council has not made changes to its policy or calculation approach in 2021/22. Government has consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. Government will issue a full response to the consultation in due course.	● Light purple

Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
●	**Unreconciled differences on the bank reconciliation.** • The Council's bank reconciliation at 31 March 2022 included an unreconciled difference of £87,546 with the narrative "Chip & Pin & MyWalsall timing differences currently being investigated in this financial year." • Although trivial in value, any differences on the bank reconciliation should be fully investigated and cleared as part of the monthly reconciliation process.	• Any differences on the bank reconciliation should be fully investigated and cleared as part of the monthly reconciliation process. **Management response** • The unreconciled difference relates to timing differences between consolidated card payments being received by Walsall and the availability of the supporting reports (both from the Council's systems and the card merchants) to confirm which periods the individual transactions within those relate to. A formal Payment Projects workstream is underway to address this issue (and wider risks around age and breadth of the underlying payment systems in use across the Council), with upgrades to the technology platform that supports this integration shortly due for implementation which will both help improve the timeliness and completeness of the monthly reconciliation process and provide improved access to reporting.

Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council. We have requested specific representations in relation to the estimation approach followed by the Council for the valuation of land and buildings.

2. Financial Statements - other communication requirements

Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests for all material investment and bank balances. This permission was granted and the requests were sent. All confirmations requested have been received.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. We did not experience significant difficulties with the audit evidence, explanations or level of co-operating provided by the Council.

2. Financial Statements - other communication requirements

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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 entity'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, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. We have nothing to report on these matters.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. The Council does not exceed the specified group reporting threshold of £2 billion and as such detailed procedures are not required.
Certification of the closure of the audit	We intend to certify the closure of the 2021/22 audit of Walsall Council in the audit report.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate VFM Summary report which was presented to the Audit Committee in November 2022.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions.

We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Financial sustainability was identified as a potential risk of significant weakness on the following basis: - The Council was forecasting achievement of financial plans for 2021/22, having agreed savings of £28.9m, and set a balanced budget for 2022/23 including £18.9m of identified savings. It had a Medium Term Financial Plan in place covering the period to the end of 2025/26. - The ongoing impact of COVID-19 and potential impacts on Adult Social Care, public health and income generation activities meant increased uncertainty over future funding and costs in the medium to long term.	We undertook detailed work on the financial arrangements of the Council to assess the risk of significant weakness. This included a detailed review of the Councils savings plans, savings delivery and financial forecasts.	Overall we were satisfied with the Council's approach to financial planning and savings delivery. Key to this is the PROUD scheme and the savings it has delivered for the Council.	Appropriate arrangements in place, no key recommendation raised and two improvement recommendations raised.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £175,622 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, certification work is undertaken after the audit has completed. In addition, the Council has informed management who will decide whether to amend returns for our findings and who agree the accuracy of our reports on grants.

Appendices

A. Action plan – Audit of Financial Statements

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● (Medium)	**Unreconciled differences on the bank reconciliation.** • The Council's bank reconciliation at 31 March 2022 included an unreconciled difference of £87,546 with the narrative "Chip & Pin & MyWalsall timing differences currently being investigated in this financial year." • Although trivial in value, any differences on the bank reconciliation should be fully investigated and cleared as part of the monthly reconciliation process.	• Any differences on the bank reconciliation should be fully investigated and cleared as part of the monthly reconciliation process. **Management response** • The unreconciled difference relates to timing differences between consolidated card payments being received by Walsall and the availability of the supporting reports (both from the Council's systems and the card merchants) to confirm which periods the individual transactions within those relate to. A formal Payment Projects workstream is underway to address this issue (and wider risks around age and breadth of the underlying payment systems in use across the Council), with upgrades to the technology platform that supports this integration shortly due for implementation which will both help improve the timeliness and completeness of the monthly reconciliation process and provide improved access to reporting.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Walsall Council's 2020/21 financial statements, which resulted in one recommendation being reported in our 2020/21 Audit Findings report.

We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	We noted that the Council's fixed asset register shows fully depreciated assets with an original cost of £27.9m, mostly equipment assets. Finance staff were unable to provide assurances that these assets were still held and in use by the Council, but informed us that a review of these assets was due to be undertaken in 2021/22. The Council should undertake a review of fully depreciated assets on the Fixed Asset Register to establish whether assets are still in use and a revision to estimated useful lives is required, or assets are no longer in use and so should be written off.	The Council has reviewed the asset register during 2021/22 and where assets were assessed as either no longer in use or could not be identified, the cost and depreciation of these assets have been written out of the asset register and financial statements. There was no net impact on asset book value.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Adjustment to pension asset values on receipt of updated information	0	Pension liability £13,783k dr Pension reserve £13,783k cr	0
Overstatement of NNDR appeals provision (identified by management post draft accounts)	0	Provisions - £3,830 dr Collection fund - £3,830cr	0
Overall impact	£0	£0	£0

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Financial instruments classification	Money market funds - £35m - reclassified from held at cost to held at fair value through profit and loss	✓
Other disclosure updates	Further disclosure around the impact of the presentational restatement of the CIES undertaken in 2021/22 Updates to the disclosures to notes on critical judgements and estimation uncertainty.	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Increase in PPE valuation between 1/1/22 and 31/3/22	0	PPE valuations - £6,100k Revaluation reserve - £6,100k	0	Not material
Overall impact	£0	£0	£0	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Understatement of pension fund assets at 31/3/21 - £5,364k	No net impact on 2021/22	No net impact on 2021/22	No net impact on 2021/22	Not material
Overall impact	£0	£0	£0	

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

The fees reconcile to the financial statements.

Audit fees	Proposed fee	Final fee
Council Audit	175,622	175,622
Total audit fees (excluding VAT)	£175,622	£175,622

Non-audit fees for other services	Proposed fee	Final fee
Housing benefit grant claim certification	12,500	12,500
Total non-audit fees (excluding VAT)	£12,500	£12,500

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