

The Annual Audit Letter For Walsall Metropolitan Borough Authority

Year ended 31 March 2019

August 2019

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.



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**Your key Grant Thornton
team members are:**

Richard Percival

Key Audit Partner

T: 0121 232 5434

E: Richard.d.Percival@uk.gt.com

Lorraine Noak

Manager

T: 0121 232 5407

E: Lorraine.Noak@uk.gt.com

Thomas Greensill

Executive

T: 0121 232 5372

E: Thomas.a.greensill@uk.gt.com

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Walsall Metropolitan Borough (the Council) and its subsidiaries (the group) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 22 July 2019.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £11,300,000, which is 1.9% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2019.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Our work (continued)

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit Committee separately.
Certificate	We certified that we had completed the audit of the financial statements of Walsall MBC in accordance with the requirements of the Code of Audit Practice on 9 August 2019 following completion of our WGA work.

Working with the Council

This was our first year as your external auditors.

We aimed to achieve a smooth transition from your previous auditors and worked closely with your officers throughout the year to ensure we were able to deliver our opinion and VFM conclusion to enable you to publish your Statement of Accounts by the 31 July deadline.

We have also:

- Shared our insight – with regular audit committee updates covering best practice
- Provided training – giving your teams training on financial statement reporting issues.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £11,300,000, 1.9% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £100,000.

We also set a lower threshold of £569,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and are adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report, annual governance statement and Annual Report published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions (rebutted)</p> <p>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.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Walsall Metropolitan Borough Authority, mean that all forms of fraud are seen as unacceptable <p>Therefore we did not consider this to be a significant risk for the Authority</p>	<p>We concluded that there was a low risk of material misstatement due to improper revenue recognition</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined 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 • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls</p>

Audit of the Financial Statements

Significant Audit Risks (continued)

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Authority re-values 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. The valuation of land and buildings and surplus assets was £388 million at 31 March 2019.</p> <p>Additionally, management need to ensure the carrying value of land and buildings in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuers to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. 	<p>Our audit work did not identify any issues in respect of valuation of land and buildings.</p> <p>We sought clarification from the valuer concerning the potential change in values of assets not revalued. He carried out a desktop exercised and estimated a level of estimation uncertainty of £3.0 million, which was well within the tolerance we set. This was consistent with information provided to us by our own valuer.</p>

Audit of the Financial Statements

Significant Audit Risks (continued)

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. Long term liabilities at the 31 March 2019 include £518.5 million in respect of the Authority's Local Government Pension Scheme liability.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's 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 expert (an 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 Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report 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; and • obtained assurances from the auditor of 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 financial statements. 	<p>Our audit identified one issue in relation to accounting for the impact of the McCloud Court of Appeal judgement on age discrimination in pension schemes. This national issue resulted in an increase in the Council's net pension liability of £10.2 million.</p> <p>During the course of our audit the Government was refused leave to appeal to the Supreme Court to challenge the Court of Appeal ruling. The Council therefore requested a revised IAS 19 report from its actuary to estimate the potential impact of this ruling. The actuary's estimate was that this would result in an overall increase of £10.2 million to the net defined liability at 31 March 2019.</p> <p>Management amended the financial statements to reflect the actuarial review of the impact.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 22 July 2019.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed did not identify any issues for the group auditor to consider on 9 August 2019.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. There were no such instances to report.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Walsall Council in accordance with the requirements of the Code of Audit Practice on 9 August 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

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Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings	Conclusions
<p>Sustainable Resource Deployment</p> <p>Planning finances effectively to support delivery of strategic priorities and maintain statutory functions</p> <p>The Authority is not immune to austerity cuts but does have a history of performing to budget. However this is coupled with significant financial challenges over the medium term. Performance is particularly challenging in Adult Social Care directorate which at month 10 2018/19 is £1.13m overspent.</p> <p>The 2019/20 budget has included proposed savings of £5m from the PROUD transformation programme which has yet to be tested.</p> <p>Over the Medium term the Authority continues to face similar financial pressures and uncertainties to those experienced by other Local Government bodies.</p> <p>We said we would review and evaluate the revised Medium Term Financial Plan to see how the budget gap is to be addressed in the medium term. We said we would also review the PROUD programme plans going forward to ensure realistic assumptions have been built into budget setting. We would also be mindful of the use of reserves and the expected PROUD savings used in future budget projections.</p>	<ul style="list-style-type: none"> • The financial year 2018/19 has shown a positive outcome for Walsall MBC, as in previous years budgets have been managed well despite increasing pressure on Adult and Children's Services. • The Authority updated the MTFS to align with the decision to modernise customer services to ensure they are resilient and customer focussed. This is also intended to improve efficiency and realise savings to address the challenges going forward and align with the council plan. • The later part of 2018/19 saw the design element of the proposed changes being reviewed and evaluated. The Authority partnered with PWC to provide a further layer of expertise within the design of the transformation programme. • Expected financial savings were revised following formal consultation and Equality Impact Assessment (Drug and Alcohol Services, Falls Prevention, SEN Transport) and Member consideration. Overall approved efficiency plans are incorporated into the MTFS. • Whilst the 2019/20 budget has been approved and is balanced there is still a need to find £24.6m of additional savings over the following two years. The PROUD programme is transforming delivery and the organisation of the Authority. The savings programme is heavily dependent on these changes being successfully achieved. 	<p>The PROUD transformation is about more than financial efficiency as it incorporates major changes to modernise and focus the services the Authority provides.</p> <p>However, a significant part of the programme is to ensure that costs are streamlined and efficiency savings are made. Delivering £24.6m of savings by the end of 2021/22 is a major challenge for the Authority.</p> <p>Some difficult decisions have been made in the planning phase. The Authority have also revised and updated the vision and strategy in the medium term to meet these challenges.</p> <p>Historical financial results have meant a good starting place, but increased requirements for savings will put more pressure on budget delivery.</p> <p>The transformation programme began in April 2019 and needs to be continually and effectively monitored to ensure savings delivery is kept on track.</p> <p>We have not yet seen major changes as it is still early in the transformation process.</p> <p>Conclusion</p> <p>On the basis of our review, we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements in place to plan resources effectively and support delivery of strategic priorities.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings	Conclusion
<p>Working with Partners and other third parties</p> <p>Working with partners and third parties to deliver strategic priorities</p> <p>There are significant risks with budget delivery and reserves management and the Transformation scheme PROUD. Although delivery is intrinsically linked to finance it also relies on partnership working. Partnership working includes commercial, third sector and health colleagues. Governance of these partnerships particularly in relation to the monitoring of delivery of the PROUD programme is an important part of ensuring the goals set are achieved.</p> <p>We said we would review partnership working and the arrangements in place to ensure governance and monitoring of achievements is addressed. This was particularly in relation to the PROUD programme.</p>	<p>Walsall MBC has strong partnership arrangements not only with public sector bodies, but also local community services and voluntary bodies. To cement the work with the voluntary sector a Voluntary Sector Partnership Agreement was put in place in 2018.</p> <p>As part of the Transformation programme it has been recognised that working with partners brings opportunities for supporting residents at less cost than traditional council delivered services.</p> <p>The PROUD transformation scheme is a three year programme to enable change to the culture and processes the Authority operate under. The aim is to deliver a customer focussed modern organisation.</p> <p>During 2018/19 the design of this work has been undertaken and the Authority have worked in partnership with PWC to implement a start date of April 2019.</p> <p>Governance arrangements have been put in place, including an Officer Proud Board and Commercial Group, with approval and overview of Proud by Cabinet and Scrutiny, providing proportionate governance and assurance to support decision making.</p> <p>The design and structure of the governance arrangements for the transformation programme is in early stages and evaluation should be ongoing to ensure that informed decisions and monitoring of outcomes is appropriate.</p>	<p>Our review has shown that Walsall MBC have a solid history of working with partners. They are part of the Black Country Executive Joint Committee which works in partnership with other Authorities in the area. There are strong links with local healthcare organisations as their work towards an integrated care system takes shape.</p> <p>We also noted that a newly formed committee structure is in place. The effectiveness of this arrangement will be seen as the transformation project and required savings progress. When we carried out our work some of the Terms of Reference were still being developed.</p> <p>The Authority needs to continue to monitor the changes to the revised governance model and the effectiveness of the project to ensure it is delivering as planned. This is an ongoing task.</p> <p>Conclusion</p> <p>On the basis of our work, we are satisfied that the Authority put in place proper arrangements for working with partners and third parties to deliver strategic priorities for the year ended 31 March 2019.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	January 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

Fees

	2018/19 Planned £	2018/19 Actual £	2017/18 Actual £
Statutory audit (audit fee variation to be confirmed)	118,997	127,997	142,853
Housing Benefit Grant Certification (subject to audit completion)	12,500	12,500	14,087
Total fees	131,497	140,497	156,940

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £181,997 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These changes are summarised in the following table. The fee variations are subject to PSAA approval.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£3,000
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£3,000
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£3,000
Total		£9,000



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