

The Annual Audit Letter for Walsall Council

Year ended 31 March 2020

25 January 2021



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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 Council (the Council) for the year ended 31 March 2020.

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 23 November 2020.

Our work

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.

Materiality	We determined materiality for the audit of the Council's financial statements to be £9,700,000, 1.5% of the Council's gross cost of services.
Financial Statements opinion	<p>We gave an unqualified opinion on the Council's financial statements on 27 November 2020.</p> <p>Our opinion included an emphasis of matter paragraph drawing attention to Note 3 of the financial statements, which reported material uncertainty attached to property valuations (operational land and buildings, surplus assets, assets held for sale and investment properties) as at 31 March 2020 due to the ongoing nature of the Covid-19 pandemic. It is also disclosed that as a result of the impact of Covid-19 on the global financial markets, the valuation of the Pension Funds' investment properties are reported on the basis of material valuation uncertainty. This paragraph did not represent a modification of our audit opinion.</p>
Whole of Government Accounts (WGA)	We have yet to complete work on the Council's consolidation return in line with 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

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 27 November 2020.
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Certificate	We are unable to certify that we have completed the audit of the financial statements of Walsall Council until we complete work on certification of Whole of Government Accounts.
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Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council including the administration of grants to businesses, closure of schools and car parks with additional challenges of reopening services under new government guidelines.

The finance team also had to manage remote working, access to systems and team capacity.

Authorities were still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 27 July 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach.

The draft financial statements were provided to the audit team on 5 June 2020. Restrictions for non-essential travel meant both Council and audit staff had to work remotely including, remote accessing financial systems, video calling, alternative procedures for the physical verification of assets and completeness and accuracy of information produced by the entity.

Inevitably remote working impacted on delivery and additional time and resources were necessary on both sides to complete the work in accordance with the new extended reporting timetable.

In particular, Covid 19 increased the work undertaken in relation to Pensions Liabilities and Property Valuation due to the uncertainty of valuations. There was also an increase in the time taken to perform the audit as a direct result of remote working.

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
January 2021

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 £9,700,000, 1.5% of the Council's gross cost of services. We used this benchmark as, in our view, users of 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 of £100,000 for senior officer remuneration due to the sensitive nature and public interest of this area of the financial statements.

We set a threshold of £485,000, 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 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 Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts 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>Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected that this would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> - Remote working arrangements and redeployment of staff to critical front line duties could impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets increased the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty required management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements required significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identify the global outbreak of the Covid-19 virus as a significant risk.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • engaged the use of auditor experts for asset valuations 	<p>A material valuation uncertainty in respect of land and buildings and pension fund assets as at 31 March 2020 was reported in the financial statements. We drew attention to this uncertainty through inclusion of an emphasis of matter paragraph to be included in our audit report.</p> <p>We did not identified any further material uncertainties in relation to Covid-19 that would result in a material misstatement in the financial statements.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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>Valuation of land and buildings and investment properties</p> <p>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 (£361.5m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management need to ensure 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, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>As a result of Covid-19 and advice from RICS valuers have stated in their reports that there is a material uncertainty in relation to PPE valuation.</p>	<p>As part of our audit we :</p> <ul style="list-style-type: none">evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their workevaluated the competence, capabilities and objectivity of the valuation expertwrote to the valuer to confirm the basis on which the valuation was carried out to ensure the requirements of the Code were metchallenged the information and assumptions used by the valuer to assess completeness and consistency with out understandingengaged our own valuer to assess the instructions to the Council's valuer, the valuers report \and the assumptions that underpin the valuationtested revaluations made during the year to see of they had been input correctly into the Council's asset registerevaluated 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>Due to the outbreak of Covid-19 market activity has been impacted in many sectors. The Council's valuers considered that less weight can be attached to previous market evidence to inform their opinions of value as at 31 March 2020. They therefore reported to the Council on the basis of 'material valuation uncertainty'</p> <p>The Council expanded the relevant wording within the Financial Statements in relation to material uncertainty to give the reader a better understanding of the RICS guidance. We included this within our Emphasis of Matter to draw this to the attention of the reader.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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>Valuation of net pension liability</p> <p>The Council'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 (£572.4 million in the Council's 2019/20 balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>The Council uses Barnett Waddingham to provide actuarial valuation of the assets and liabilities derived from the pension scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> <p>We therefore identified valuation of the net pension liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls• evaluated the instructions issued by management to the actuary for this estimate and the scope of the agreed work• assessed the competence, capabilities and objectivity of the actuary• assessed the accuracy and completeness of the information provided by the Council 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• undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert)• 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>We noted that the valuation of pension fund investments properties are reported on the basis of material valuation uncertainty due to the impact of the pandemic. The financial statements were amended to report this and we referred to this in the emphasis of matter paragraph in our audit opinion.</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>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council 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, this was one of the most significant assessed risks of material misstatement.</p>	<p>We:</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 considered their reasonableness with regard to corroborative evidence• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions	<p>Our 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>Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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 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 Council, mean that all forms of fraud are seen as unacceptable.	<p>Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items.</p>	<p>Our work did not identify any matters that would indicate our rebuttal was incorrect.</p>

Audit of the Financial Statements

Significant Findings – Other Issues

This section provides commentary on issues and risks which were identified during the course of the audit.

Issue	Commentary
<p>International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)</p> <p>We reported in our audit plan that the implementation of IFRS 16 from 1 April 2020 would be recognised as a risk for 2019/20.</p> <p>Implementation of IFRS 16 was subsequently delayed to 1 April 2021 as a result of the Covid19 pandemic. However, audited bodies were still required to include disclosures in their 2019/20 statements. As a minimum, we expected audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.</p>	<p>We reviewed the draft financial statements to assess whether the Council had included appropriate disclosures relating to the impact of the implementation of IFRS 16.</p>
<p>Accounting treatment of loans and investments</p> <p>As part of its normal course of business the Council lends and borrows from other local authorities and approved financial institutions to manage its cash flow and to finance capital expenditure.</p> <p>We noted that the balance sheet includes debtors of £54m and creditors of £12m relating to “forward deals”.</p>	<p>We challenged this accounting treatment as in our view it did not comply with the requirements of the Code or IFRS. Following discussion with the Finance Team and consultation with our Financial Instruments expert the Finance Team agreed to amend the accounts.</p> <p>This resulted in a material adjustment, however this only impacted on the balance sheet and has no impact on the reported financial position for the year or on General Fund balances and reserves.</p>

Audit of the Financial Statements

Significant Findings – Other Issues

This section provides commentary on issues and risks which were identified during the course of the audit.

Issue	Commentary
<p>Going concern</p> <p>The Council has robust medium term planning processes and has built up a significant quantity of cash and cash equivalents (and corresponding reserves) to both enable it to carry out planned capital works as well as allow a sufficient reserve and cash balance to provide sufficient headroom against the impacts of Covid19.</p> <p>Clearly the pandemic has been a factor in both the Council's thinking going forward as well as the audit team's work from a going concern and VfM perspective. The Council's income streams (local taxation, fees and charges) have been affected and are susceptible to change as a result of the pandemic. These impacts are being monitored regularly by the Council using a reasonable and reasonable worse case scenario. We are also aware that funding from central government is being made available to mitigate the additional risks facing the Council, however there does remain uncertainty over the actual levels and if this will cover the extra costs generated by providing services during the pandemic.</p>	<p>The Council is closely monitoring the financial impacts of Covid19 using the best available data. Transformation and mitigating actions are being implemented to combat further overspends. The strong reserves position and ability to liquidate cash and cash equivalents provide a stabilising effect for the Councils plans.</p> <p>We are therefore of the view that the going concern assertion is appropriate for the Council and did not include a material uncertainty in this area within our audit report</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 27 November 2020.

Preparation of the financial statements

The Council presented us with draft financial statements on 5 June 2020 in accordance with the agreed timescale, 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.

Restrictions for non-essential travel meant both Council and audit staff had to work remotely including, remote accessing financial systems, video calling, alternative procedures for the physical verification of assets and completeness and accuracy of information produced by the entity.

Inevitably remote working impacted on delivery and additional time and resources were necessary on both sides to complete the work in accordance with the new extended reporting timetable.

In particular, Covid19 increased the work undertaken in relation to Pensions Liabilities and Property Valuation due to the uncertainty of valuations. There was also been an increase in the time taken to perform the audit as a direct result of remote working.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 27 November 2020.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website as part of the draft Statement of Accounts in June 2020.

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 have yet to complete our work on WGA for 2019/20 due to technical problems with the WGA system.

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.

We did not identify any matters which required us to exercise our additional statutory powers.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Walsall Council until we complete work on certification of Whole of Government Accounts.

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 April 2020 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.

As part of our Audit Findings report agreed with the Council in 27 November 2020, we agreed recommendations to address our findings.

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 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>We identified the following risk in our audit plan:</p> <ul style="list-style-type: none"> The Council is not immune to austerity cuts but has a history of performing to budget. However this is coupled with significant financial challenges over the medium term. Performance pre-audit was an overall net revenue outturn of £121.08m against a budget of £121.37m, an underspend variance of £291k (0.05% of gross expenditure) Adult Social Care and Children's Services are particularly stretched with an overspend of £1.33m against budget. The 2019/20 budget included £20.08m of savings / cost reductions and efficiencies. £11.35m have been achieved. Unachieved savings have been incorporated into the 2020/21 budget. The achievement of the £5 million PROUD transformational savings included within the 2019/20 budget has been delayed and amended within the 2020/21 budget proposals. As such any savings from PROUD remain to be tested. Over the Medium term the Council continues to face similar financial pressures and uncertainties to those experienced by other Local Government bodies. 	<p>We:</p> <ul style="list-style-type: none"> reviewed and evaluated the revised Medium Term Financial Plan to see how the budget gap is to be addressed in the medium term. reviewed the PROUD savings programme going forward to ensure realistic assumptions have been built into budget setting. 	<p>The Council has recognised that the original PROUD savings profile was over ambitious and not deliverable. It has taken positive action to ensure there is effective progress monitoring and re-considered what is achievable. The re-assessment of the investment required and profile of savings needs to be carefully monitored as the challenges and uncertainties of the Covid pandemic continue to impact on the Council's operations and finances.</p> <p>The delivery of the 2019/20 budget helped to ensure that the Council was in a sustainable financial position when it was faced with the unprecedented financial pressures caused by the Covid pandemic. It is continuing to manage these financial challenges effectively and has sufficient General Fund balances and reserves to support its financial position in the short term.</p> <p>Despite the pressures and uncertainties of the Covid pandemic and the slippage in PROUD savings delivery arising from this the Council is on track with its 2020/21 budget delivery.</p> <p>The local authority funding uncertainties and continuing Covid financial pressures mean that the Council faces a significant financial challenge over the next two years. Although it has a good track record on managing its financial position, it is likely that difficult decisions will need to be made as part of the 2021/22 budget setting process to ensure financial sustainability is maintained.</p> <p>Based on our review of the significant risk identified we have concluded that Walsall Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	18 February 2020
Audit Findings Report	27 November 2020
Annual Audit Letter	25 January 2021

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	131,997	153,797	127,997
Housing Benefit Grant Certification	12,500	12,500	12,500
Total fees	144,497	166,297	140,497

Area	Reason	Fee proposed £
Accounting treatment of borrowings and loans	Fee variation due to additional audit work on the accounting treatment of borrowings and loans	2,000
Impact of Covid-19 on audit arrangements	Fee variation due to impact of Covid-19 on audit input	19,800
Total		21,800

Fee variation subject to PSAA approval.

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £109,997 assumed that the scope of the audit did not significantly change. We included a fee variation of £22,000 in our plan due to the enhanced auditing requirements since the scale fee was set. During the course of our audit further additional work was required.

Non-audit services Housing Benefit Grant Certification

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit service is consistent with the Council's policy on the allotment of non-audit work to your auditor.

