

Audit Committee – 20 November 2017

Annual Audit Letter for the year ending 2017

1. Summary of report

This report presents Ernst Young's Annual Audit Letter 2016/17. It summarises the key issues arising from the work that the external auditors have carried out at Walsall during 2016/17. The letter is designed to communicate their key messages and conclusions to the council and external stakeholders, including members of the public. The letter covers the following work areas:

- auditing the 2016/17 year end accounts and
- assessing the council's arrangements for securing economy, efficiency and effectiveness to ensure Value for Money (VfM) is achieved.

2. Recommendations

- 2.1 Audit Committee are requested to formally consider and receive the external Annual Audit Letter for 2016/17.

3. Governance

- 3.1 The Annual Audit Letter summarises the key work areas and audit conclusions arising during 2016/17 to assist the council in maintaining strong governance arrangements

4. Resource and legal considerations

- 4.1 None directly relating to this report.

6. Performance and risk management issues

- 6.1 Performance and risk management is embedded in the final accounts process.

7. Equality implications

- 7.1 None directly associated with this report.

8. Consultation

- 8.1 The report is prepared in consultation with the Chief Finance Officer, Chief Executive and relevant managers.

9. Background papers

- 9.1 Various financial reports.

James T. Walsh, Chief Finance Officer, 3 November 2017

A handwritten signature in black ink, appearing to read 'James T. Walsh', with a stylized, cursive script.

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Walsall Metropolitan Borough Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the [PSAA](http://www.psaa.co.uk) website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment (NHS and smaller bodies)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Directors/Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

1. Executive Summary

1.1 Purpose

The purpose of this annual audit letter is to communicate to Councillors and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention relating to Walsall Metropolitan Borough Council.

We have already reported the detailed findings from our audit work in our 2016/17 annual results report to the 25 September 2017 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

1.2 Key conclusions

We are required to issue an annual audit letter to the Council following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

1.2.1 Audit opinions

Area of Work	Conclusion
Opinion on the Council's: ► Financial statements	Based on our review of your internal control environment and assessment of key business risks we designed a risk based audit testing strategy. As a result of our detailed testing and use of EY data analytics tools we obtained sufficient evidence to form a conclusion on your financial statements (see page 7 to 8 for more detail). We concluded that the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended and issued an unqualified opinion.
► Consistency of other information published with the financial statements	We reviewed the financial and non-financial information accompanying the Financial Report for 2016/17, including the Narrative Statement, to identify material inconsistencies with the audited financial statements or from the knowledge acquired by us in the course of performing the audit. Based on the results of our work we concluded that the financial information in the Financial Report for 2016/17 was consistent with the financial statements.
► Value for money conclusion	We have a responsibility to report to you if we are not satisfied that the Council has put in place proper arrangements to secure economy efficiency and effectiveness in its use of resources.

Area of Work	Conclusion
	<p>In our Audit Plan we identified significant risks in respect of:</p> <ul style="list-style-type: none"> ► Sustainable resource deployment; ► Working with third parties effectively to deliver strategic priorities <p>We performed the procedures outlined in our audit plan and did not identify any significant weaknesses in the Council's arrangements. We therefore concluded that you have put in place proper arrangements to secure value for money in your use of resources.</p>

1.2.2 Reports by exception

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	We reviewed the Annual Governance Statement and confirmed to the Audit Committee that it was not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.
► Public interest report	<p>We have duty to consider if there are any matters coming to our notice that should be brought to the public's attention through a public interest report</p> <p>We had no matters to report in the public interest.</p>
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

As a result of the above we:

- Discussed our Audit Results Report with Audit Committee, communicating the significant findings resulting from our audit on 25 September 2017.
- Issued our certificate to state that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice on 25 September 2017.
- Completed our reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).

In December 2017, we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Hassan Rohimun

Associate Partner
For and on behalf of Ernst & Young LLP

The background of the slide is a photograph of a grand, classical building. It features a series of wide, light-colored stone steps leading up to a row of tall, fluted columns. The architecture is reminiscent of a government or institutional building. A bright yellow rectangular box is overlaid on the left side of the image, containing the word 'Responsibilities' in a dark, sans-serif font.

Responsibilities

2. Responsibilities

2.1 Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 31 March 2017 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return.

2.2 Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The background of the slide is a blurred office scene. It features a wooden desk with several clear glass tumblers filled with water. In the background, a laptop screen displays some data or charts. Financial documents, including a spreadsheet with yellow highlights and a pen, are scattered on the desk. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

Financial Statement Audit

3. Financial Statement Audit

3.1 Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 September 2017.

Our detailed findings were reported to the 25 September 2017 Audit Committee. The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Management override of controls	<p>To address the risk of management override we:</p> <ul style="list-style-type: none"> ▶ Reviewed accounting estimates for evidence of management bias as identified in the response to revenue recognition. ▶ Tested the completeness and existence of provisions. ▶ Evaluated the business rationale for any significant unusual transactions. No such transactions were identified. ▶ Reviewed the accounting adjustments processed and disclosed in the Movement in Reserves Statement and supporting notes. ▶ Confirmed the Council's Minimum Revenue Provision was consistent with the Council's strategy and policy. ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; ▶ Tested a sample of journal entries across the year based on appropriate risk based criteria to identify potential manipulation of revenue and expenditure. <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p> <p>We did not identify any evidence of material management override nor any instances of inappropriate judgements being applied.</p>
Risk of Fraud in Revenue and Expenditure Recognition	<p>To address the risk of fraud in revenue and expenditure recognition we:</p> <ul style="list-style-type: none"> ▶ Reviewed and tested expenditure recognition policies. ▶ Reviewed and discussed with management any material accounting estimates on expenditure recognition for evidence of bias.

	<ul style="list-style-type: none"> ▶ Tested the valuation of any provisions recorded in the financial statements and performed appropriate tests to consider whether all material provisions have been recognised. ▶ Developed a testing strategy to test material debtors and creditors. ▶ Developed and followed a testing strategy to test whether the Council has inappropriately capitalised revenue expenditure. <p>Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position</p>
Property, Plant and Equipment Valuation	<p>We utilised EY valuation experts to support our consideration of the valuation of the Council's Property, Plant and Equipment portfolio of assets.</p> <p>We reviewed the valuation methodology behind a sample of assets as well as performed appropriate tests over the completeness and appropriateness of information provided to the valuer and ensured the valuer's conclusions were appropriately recorded in the accounts.</p> <p>In performing our work, we identified that an error in the value of two properties, which resulted in a £12.9million downward adjustment to the carrying value of Property, Plant and Equipment. This accounting adjustment did not impact on the general fund.</p>
Local Government Pension Scheme Liability	<p>We:</p> <ul style="list-style-type: none"> ▶ Performed appropriate tests to obtain assurance over the information provided to the actuary. ▶ Wrote to the Pension Fund auditor to ascertain whether there are material concerns we need to be aware of for our audit. ▶ Ensured accounting entries and disclosures are consistent with the actuaries report. <p>In addition, we engaged EY actuarial experts to assist our review of the key actuarial assumptions, this highlighted that the discount and inflation rates used by BW fell outside of a range which they considered acceptable. We performed additional tests which allowed us to conclude that the pension liability was not materially misstated. We did report that, as the methodologies used by the pension scheme actuary to derive the discount rate and RPI inflation assumptions do not adequately take into account the specific duration of the scheme's liabilities this could, in future years, lead to unacceptable assumptions. We recommended management perform appropriate tests to obtain assurance over the information provided to the actuary.</p>
Other Key Findings	Conclusion
Valuation of Birmingham Airport Shareholding	The Council owns 4.88% of Birmingham Airport Holdings (BAHL) 320 million ordinary shares. The fair value calculation involves a specialist model that contains management judgement and estimates that have a direct impact on the value recorded in the financial statements. We were supported by our valuation team to:

	<ul style="list-style-type: none"> ▶ Review the scope of work performed by the Council's advisors on the valuation model and comment on valuation methodology. ▶ Identify, verify and test significant assumptions. <p>Overall, we are satisfied that the airport valuation in the financial statements is free from material misstatement.</p>
Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement	<p>Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the code) this year changing the way the financial statements are presented. The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.</p> <p>The Council has applied the Code changes over the presentation of the financial statements. We reviewed the Council's disclosures and reconciled the figures presented in the new format to the prior year financial statements. We recommended, and the Council accepted, minor enhancements to the disclosures to further explain the presentational changes.</p>

3.2 Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We delivered our procedures using a materiality of £14.6 million based on 2% of gross expenditure (including other relevant expenditure below the cost of services line in the CIES.</p> <p>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.73 million.

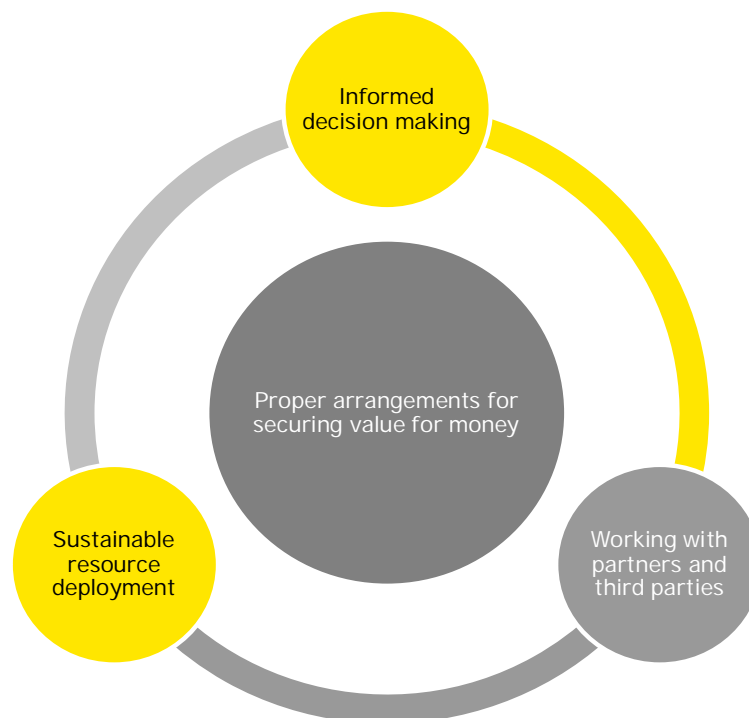
We also identified areas where misstatement at a lower level than our overall materiality level might influence the reader:

- ▶ External audit fees being numerically sensitive: we set a materiality of £1k, being the rounding number in the accounts.
- ▶ Member Allowances a figure of £36,500 was judged appropriate.
- ▶ Officers' remuneration is numerically sensitive and we set materiality at £1k, being the rounding number in the accounts.
- ▶ Related party transactions. For any errors identified related parties we considered the concept of the materiality of transactions and balances as would be relevant to the related individual or organisation.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Value for Money

4. Value for money



Economy, efficiency and effectiveness

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

In considering your proper arrangements, we draw on the requirements of the guidance issued by CIPFA to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified two significant risks in relation to these arrangements. The tables below presents the findings of our work in response to the risk areas in our Audit Plan and any other significant weaknesses or issues to bring to your attention.

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2016, we are satisfied that, in all significant respects, Walsall Metropolitan Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

The key issues identified as part of our audit were as follows:

Significant Risk	Key findings
<p>Sustainable resource deployment</p> <p>VFM Criteria: Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</p>	<p>The Council is able to demonstrate continued financial management through budgetary and spending control that has resulted in a less than 1% outturn variance for 2016/17.</p> <p>There is a continuing downward trend on employee expenditure, as the Council seeks to manage the workforce, together with other categories. However there have been increases in third party and transfer payments which Members will need to continue to keep under review</p> <ul style="list-style-type: none"> ▶ Adult Social Care continues to face challenges, and it is a service where the Council has consistently overspent against budget and established needed to implement action plans to address the overspends: <ul style="list-style-type: none"> · As reported to Audit Committee in January 2017, during the year the Council has implemented a range of controls and practices to improve financial control, such as: monthly corporate reporting to Corporate Management Team highlight the spend, budget, forecasting, risks and progress against efficiencies; introduction of a Resource Allocation Panel that has every case presented to it; and benchmarking the cost of care. · As at March 2017, it is too early to assess whether these actions have become embedded in the Council or led to sustained levels of improvement. However, the Council's overall budget performance as noted above does demonstrate that the Council has taken appropriate action in the year and that this is indicative of adequate arrangements. · The Council has committed to improve its internal systems to support continuing improvement in the delivery of social care. Going forwards the Council will utilise 'Mosaic' instead of inputting data into multiple systems, with the aim of improving management information and caseload management. Mosaic on its own will not deliver the business change needed to operate differently, and the Council will need to continue to drive change management in social care. <p>At the Spring Budget 2017, the Government announced an additional £2billion over the next 3 years for adult social care. Walsall Council's allocation is £12.6million, with £6.5million in 2017/18; £4.1million in 2018/19 and £2million in 2019/20</p> <p>The future financial position remains challenging, and the Council's budget and the Medium Term Financial Strategy dependent on £22million savings in 2017/18 and £33million savings between 2018/19 and 2019/20</p> <ul style="list-style-type: none"> ▶ The Council's financial standing is supported by a £13.9million general fund reserve and £129.6million in earmarked reserves as at 31 March 2017. ▶ The Council's budget for 2017/18 incorporates £22.7million in cost pressures and investment programmes, of which £9.8million relates to social care and £6.6million to children's services.

Significant Risk	Key findings
	<ul style="list-style-type: none"> ▶ These increases are offset by policy based savings of £12.6million and a further £9.4million in operations savings of. ▶ The largest individual plans are to save £1.7million by improving demand management in adult social care; £1million through reviewing contracts; and £1.4million from a review of employee terms and conditions (approved in 2016/17). ▶ Through Business Rate Retention, there remains uncertainty in respect of the amount of income the Council receive in Government funding from 2017/18 onwards and the Council will be involved in a 100% business rates retention pilot, which will begin from 1 April 2017. <p>Delivery of these plans will be challenging for the Council. The Audit Committee should consider how it will seek assurance over the implementation and project management of major programmes</p>
<p>Working with third parties effectively to deliver strategic priorities</p> <p>VFM Criteria: Working with third parties effectively to deliver strategic priorities</p>	<p>We have performed the work as set out in our Audit Plan and are satisfied, based on the evidence received, that the significant risk has been addressed. In forming our view we note that:</p> <ul style="list-style-type: none"> ▶ Similar to many other local authorities, Walsall's health and care economy has been increasingly challenged during 2016/17. ▶ Increasing financial pressures across partner bodies has challenged the effectiveness of working relationships between the Council and the CCG. This has culminated in dispute resolution and a reworking of partnering arrangements on pooled budgets, in particular both Learning Disabilities and the Better Care Fund. ▶ The Better Care Fund has been monitored throughout the year via the Health and Well Being Board. We note that the annual submission to NHS England identify a number of areas where objectives have been met, but also highlight that there has been no improvement in non-elective admissions – a key measure for the Fund. ▶ Integration and Better Care Fund planning requirements for the 2017-19 Better Care Fund were released in July 2017. The Council and partners are developing plans based on the latest guidance. The planned areas of spend for 2017-18 will need to align with the wider integration initiatives across the Black Country system, particularly the Black Country Sustainability and Transformation Plan (STP). ▶ The development and implementation of the Black Country STP and the improved Better Care Fund needs to be central to the work programme of the Health and Wellbeing Board. ▶ Partnering with Walsall CCG is important for the Council, but in the context of our audit, the scale of the partnership and the matters arising during the year is not material to the value for money conclusion.



Other Reporting Issues

5. Other reporting issues

5.1 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

5.2 Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

5.3 Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

There were no material control deficiencies identified during the audit.

Appendix A

Audit Fees



Appendix A Audit fees

Our fee for 2016/17 is above the scale fee set by the PSAA and that reported in our September 2017 Annual Results Report.

Description	Predecessor Auditor Final Fee 2014/15 GBP	Final Fee 2015/16 GBP	Planned Fee 2016/17 GBP	Final Fee 2016/17 GBP
Total Audit Fee – Code work	£190,470	£142,853	£142,853	£149,721*
Non-audit work	£7,700	Nil	Nil	Nil
Total	£198,170	£142,853	£142,853	£149,721*
Certification of claims and returns	£19,210	£14,087	£14,408	TBC – work is ongoing

*The Total Audit Fee is subject to finalisation and agreement by the PSAA.

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ED None

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