

Walsall Metropolitan Borough Council

Audit Results Report - ISA (UK and Ireland) 260 for the year ended 31 March 2016

September 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA 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 from 1 April 2015’ 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 Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. 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.

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

Area of Work	Key Findings
Status of the audit	<p>We have substantially completed our audit of the financial statements of Walsall Metropolitan Borough Council for the year ended 2015/16. Subject to satisfactory completion of the following outstanding items, we expect to issue an audit opinion in the form which appears in Appendix D:</p> <ul style="list-style-type: none"> ▶ Review and casting of the final financial statements; ▶ Audit completion steps including our subsequent events review; and ▶ Receipt of the signed management representation letter. <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Council's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We are completing the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. We currently have no issues to report.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Objections	<p>We have not received any objections to the 2015/16 accounts from members of the public.</p>
Audit differences	<p>There is one unadjusted audit difference that management have chosen not to process. The Audit Committee will need to review this judgment and decide whether to approve the financial statements knowing this error is uncorrected.</p> <p>A small number of audit adjustments were made during the course of our work. All relate to technical accounting adjustments or narrative disclosures. Further details are set out at Appendix A.</p>
Scope and materiality	<p>In our February Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £12.5million based on 2% of the Council's gross revenue expenditure for 2014/15. We have reassessed this based on the actual results for the financial year and judged it appropriate to increase our materiality to £14.6million based on 2% of actual gross revenue expenditure for 2015/16.</p> <p>The threshold for reporting audit differences which impact the financial statements, being £730,000 has also increased from £645,000.</p> <p>Through our audit, the following area is one where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas:</p> <ul style="list-style-type: none"> ▶ Remuneration disclosures including payment to the highest paid employees and directors. <p>We carried out our work in accordance with our Audit Plan.</p>
Significant audit risks	<p>We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:</p> <ul style="list-style-type: none"> ▶ Risk of management override. ▶ Revenue and expenditure recognition. <p>The 'addressing audit risks' section of this report sets out how we have</p>

Area of Work	Key Findings
	gained audit assurance over those issues.
Other reporting issues	We have no other matters we wish to report.
Control observations	We have adopted a fully substantive approach and have therefore not tested the operation of controls.
Value for Money conclusion	<p>As set out in our Audit Plan, we identified a significant risk that insufficient arrangements are in place for the identification and delivery of savings to secure the Medium Term Financial Position.</p> <p>In addition, we agreed to keep four areas under review:</p> <ol style="list-style-type: none"> 1. The work and reports of regulators, such as the Care Quality Commission and OFSTED. 2. The local health economy, including adult social care, and in particular the outcome measures of the Better Care Fund and the extent to which the Council's arrangements are impacted through the challenges faced by Walsall Healthcare NHS Trust. 3. The Council's approach to devolution and the governance applied to the Combined Authority. 4. The outcome of other aspects of assurance work, such as the audited financial position and the Head of Internal Audit's opinion <p>On the basis of the work performed, we propose to issue an unqualified value for money conclusion.</p> <p>Further details are included at Section 4 to this report.</p>

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

Hassan Rohimun
Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

2.1 The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes 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.

2.2 Purpose of our work

Our audit was designed to:

- ▶ Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- ▶ Report on an exception basis on the Annual Governance Statement;
- ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- ▶ Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

3. Financial statements audit

3.1 Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant financial statements risk	EY's audit response	Assurance gained and issues arising
Risk of management override		
<p>As identified in ISA (UK and Ireland) 240 'The Auditor's responsibilities relating to fraud in the audit of financial statements', management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<ul style="list-style-type: none"> ▶ Made inquiries of management about risks of fraud and the controls put in place to address those risks. ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. ▶ Reviewed accounting estimates for evidence of management bias. ▶ Developed a testing approach to journal entries. ▶ Assessed accounting estimates, particularly provisions, for evidence of management bias. ▶ Remained sceptical for the existence of any significant unusual transactions. ▶ Reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. 	<p>Our audit work has not identified any evidence of management over-ride of controls.</p> <p>In particular, our testing of journal entries has not identified any significant issues.</p>
Revenue and expenditure recognition		
<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Walsall Metropolitan Borough Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p>	<ul style="list-style-type: none"> ▶ Reviewed and tested revenue and expenditure recognition policies; ▶ Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias; ▶ Developed a testing strategy to test material revenue and 	<p>Our audit work has not identified any significant issues in respect of expenditure recognition.</p>

Significant financial statements risk	EY's audit response	Assurance gained and issues arising
<ul style="list-style-type: none"> ▶ There is little incentive to manipulate revenue recognition. ▶ Opportunities to manipulate revenue recognition are very limited. <p>However, revenue in this context has been modified by Practice Note 10 which states that auditors should also consider the risk that material misstatements due to fraudulent financial reporting may arise for the manipulation of expenditure recognition. We therefore set out in our Audit Plan a significant risk of expenditure recognition within the financial statements of Walsall Metropolitan Borough Council.</p> <p>Having considered the factors for expenditure recognition, we believe the risk lies within other operating expenditure and in particular the completeness of short term creditors (specifically accruals) and the completeness of 'other service expenditure' (as defined by the Council in its financial statements).</p>	<ul style="list-style-type: none"> ▶ expenditure streams; and ▶ Reviewed and tested revenue cut-off at the period end date. 	

3.2 Opening balances

We have performed relevant audit procedures on the Council's opening balances. From our testing of the 2015/16 financial statements we observed:

- ▶ Prior to providing the financial statements for audit, the Council identified a £5.4million error to the stated position of cash and creditors. The Council corrected this error in 2015/16 by reversing the incorrectly posted journal. The position at 31 March 2016 is materially correct.
- ▶ Bloxwich Leisure Centre was demolished before 31 March 2015, but the disposal was not recognised in the 2014/15 financial statements. The Council has subsequently accounted for this transaction in 2015/16. We are satisfied, on the basis of materiality, that a prior period adjustment is not required.

We have no further observations or matters to report relating to the opening financial position as at 1 April 2015.

3.3 Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process, including the following:

- ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
- ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;

- ▶ Any significant difficulties encountered during the audit; and
- ▶ Other audit matters of governance interest.

We have no matters we wish to report.

3.4 Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

Our IT audit specialists performed tests of controls over the IT general controls and provided us with sufficient audit evidence to rely on Oracle E-Business Suite (EBS).

Beyond IT general controls, we have adopted a fully substantive approach and have therefore not tested the operation of controls. However, through the course of our work we may identify control improvements and, whilst we have not identified any material weaknesses in controls, we have raised the following with management:

- ▶ The Council did not have a signed version of the section 75 agreement. Whilst an agreement was signed in 2014/15 with no end date, the Council's legal team is currently preparing a new agreement.
- ▶ The Council has an established process to obtain Member declarations of interest throughout the course of the year. However, from our testing for the completeness of related party transactions, we believe the process for officer declarations of outside business and potential related parties could be improved. In particular, we did not see the same level of rigour in following up declarations for management as there is for Members.
- ▶ An error in the Fixed Asset Register (FAR) resulted in an overstatement to the FAR of £1million when assets were revalued before being merged into a single asset. The main reason was when the Noirity Foundry and Fitters Arms were revalued upwards by £0.9million and then merged into a single asset on the FAR, resulting in the revaluation being double counted. There is no impact on the financial statements.

3.5 Annual Governance Statement

The Annual Governance Statement (AGS) is a very important document for the Council and Audit Committee; it also informs our Value for Money Conclusion. Of particular importance to our audit is:

- ▶ The Council's governance framework (section 2);
- ▶ Review of effectiveness (section 4); and
- ▶ Significant governance issues (section 5).

These three sections link to the 'proper arrangements', as defined by the National Audit Office, that support the Council's decision making, resource deployment and partnership working.

The Audit Committee received the draft AGS at its meeting on 27 June 2016. We have also reviewed the Annual Governance Statement and can confirm that it is not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

3.6 Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined at Appendix E.

3.6.1 Whole of Government Accounts

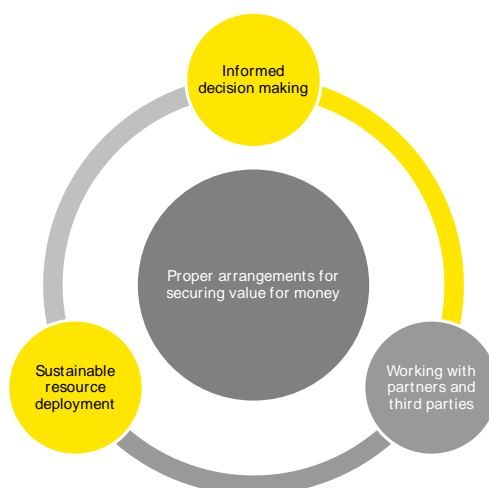
Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.

4. Value for money

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 is known as our Value for Money conclusion.

For 2015/16 this is based on the overall evaluation criterion: “In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.”



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.

4.1 Risks

As set out in our Audit Plan, we identified a significant risk that insufficient arrangements are in place for the identification and delivery of savings to secure the Medium Term Financial Position.

In addition, we agreed to keep four areas under review:

1. The work and reports of regulators, such as the Care Quality Commission and OFSTED.
2. The local health economy, including adult social care, and in particular the outcome measures of the Better Care Fund and the extent to which the Council's arrangements are impacted through the challenges faced by Walsall Healthcare NHS Trust.
3. The Council's approach to devolution and the governance applied to the Combined Authority.
4. The outcome of other aspects of assurance work, such as the audited financial position and the Head of Internal Audit's opinion.

4.1.1 Significant Risk - medium term financial position

Planned procedures	Work performed	Conclusions reached
Document the Council's approach to the identification, development and implementation of efficiencies and savings.	We met with management and reviewed key reports and minutes of meetings to obtain a clear understanding of the Council's arrangements to develop specific savings and implement effective budget management.	We are satisfied that for 2015/16, the Council had adequate arrangements in place.

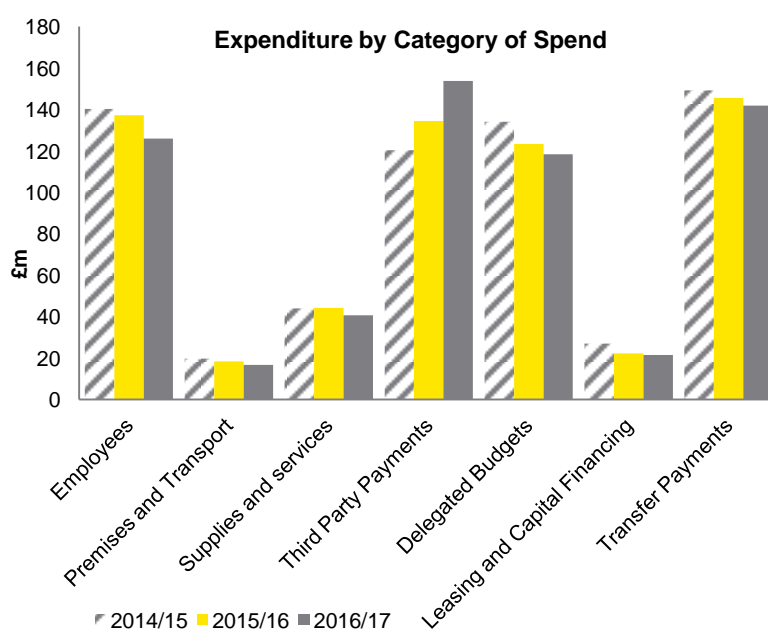
Planned procedures	Work performed	Conclusions reached
Assess the Council's overall arrangements, plans and risk strategy [for the financial position].	<p>We reviewed the Council's risk reports to confirm that the financial position was included in the risk register.</p> <p>Our review of financial reports confirmed the Council routinely reported financial risks including over/under spends and non-delivery of savings.</p>	<p>The Council has a significant challenge on the medium term to deliver a balanced budget.</p> <p>The Council is currently taking action to identify savings and Members will need to ensure that robust plans are in place to deliver the required savings</p>
Review key financial reports, including the 2015/16 outturn position to evaluate the Council's record of financial management.	We scrutinised the Council's key financial reports, combining this with our audit of the financial statements.	<p>The overall net revenue outturn is £93.0million against a budget of £93.7million, an underspend £0.7million.</p> <p>Overall, we are satisfied that for 2015/16, the Council had adequate arrangements in place.</p>
Assess the Council's key financial performance indicators.	We reviewed the Council's own key financial performance indicators and ensured these were routinely reported to Members.	We are satisfied that for 2015/16, the Council had adequate arrangements in place.
Evaluate the Council's internal risk assessment of savings identified across 2016/17 to 2018/19.	<p>We discussed and reviewed the Council's process in developing the Medium Term Financial Strategy for 2015/16 and for 2016/17 and beyond.</p> <p>We scrutinised the Council's key financial reports, combining this with our audit of the financial statements.</p>	<p>The Council's position over the medium term is challenging, with savings of £24.1million required in 2016/17 and a further £60.8million required by 2019/20.</p> <p>For 2015/16 we are satisfied that the Council's arrangements were adequate.</p>

As part of our procedures we calculated a series of financial ratios to assist our assessment of whether a significant risk to the Value for Money conclusion existed. These ratios were updated at the conclusion stage of our audit with a sample of those used set out in the following table, definitions are set out at Appendix G.

Key financial ratios	FY 2014	FY 2015	FY 2016	VFM audit risk?
Net cost of services as % of gross expenditure	43%	40%	37%	No - the decrease in this ratio means the Council's position is improving.
(Surplus)/Deficit on provision of services as % of gross expenditure	4%	-3%	5%	No - the outlier in 2014/15 is the result of movements in fixed asset disposals.
Current ratio	2.7	2.4	1.8	No - Positive current ratio indicates adequate working capital financial standing
Cash, cash equivalents and short-term investments	£124,046	£136,634	£116,991	No - Short-term assets are in excess of current liabilities.
Creditors, accruals and short term loans	£56,124	£69,535	£79,959	No - Creditors are significantly lower than levels of cash and cash equivalents
Asset turnover ratio	0.80	0.75	0.86	No - Positive ratio
Net assets	-£74,181	-£141,646	-£119,765	No - Key driver of this ratio is the Council's Pension Liability. Negative net assets are not entirely unusual for a local authority, but is an area to be kept under review .
Movement in net worth	N/A	-91%	15%	No, although a significant variance, the movement is attributable to the pension fund liability and movement in actuarial valuations. An area to be kept under review .
Reserves	FY 2014	FY 2015	FY 2016	
General Fund Balance	£14,865	£11,514	£14,131	No, GF balance brought forward is in excess of minimum level set by the Council
Earmarked reserves	£132,561	£145,282	£130,231	No, earmarked reserves are set aside for specific expenditure ensuring these are appropriately funded.

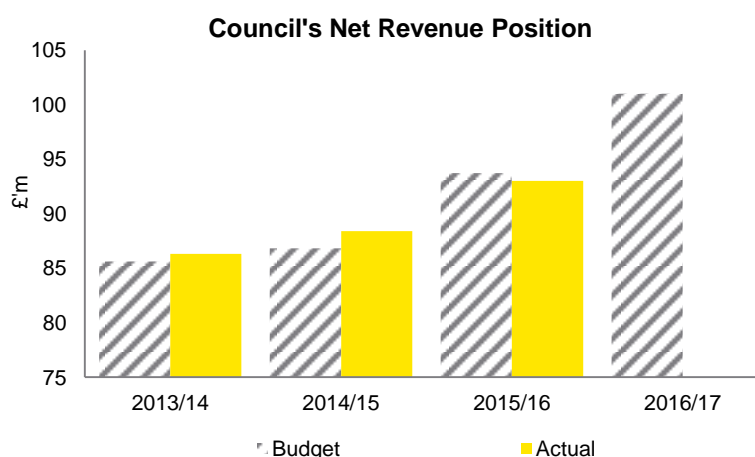
We also considered the Council's budgeted expenditure profile from 2014/15 through to 2016/17. We review this in the context of the Council's net revenue budget position against the actual outturn over the previous three years net budget position to consider whether there is any evidence of poor financial management.

Gross budgeted expenditure has reduced from £635.1million in 2014/15 to £618.9million for 2016/17. There has been some redistribution in expenditure spend, but an overall reduction in spend that demonstrates steps have been, and are being, taken to address the financial challenges.



Overspends against budget were reported in 2013/14 and 2014/15 with the Council delivering an underspend of £0.7million in 2015/16. Outturn to budget has been within 1.9% of the budget in each year (0.7% in 2015/16),

The net revenue budget has increased by £14.2million from 2014/15 to 2016/17 demonstrating reductions in income to the Council.



From this analysis, whilst we do not believe the Council's arrangements for 2015/16 to be inadequate, there is clearly an increasing risk to the Council's financial position as the net revenue budget increases.

Financial management

Cabinet receives regular financial reports to allow it to oversee the financial performance of the Council. In conducting our assessment of the Council's arrangements for financial management, we reviewed key financial reports to Cabinet to ensure consistency in reporting and the appropriate escalation of risk.

Mid-way through 2015/16, the Council needed to react to the Autumn Statement (November 2015). Whilst the statement permitted a social care Council Tax 'precept' of 2% and a commitment to local retention of business rates, it was confirmed that Revenue Support Grant would be phased out.

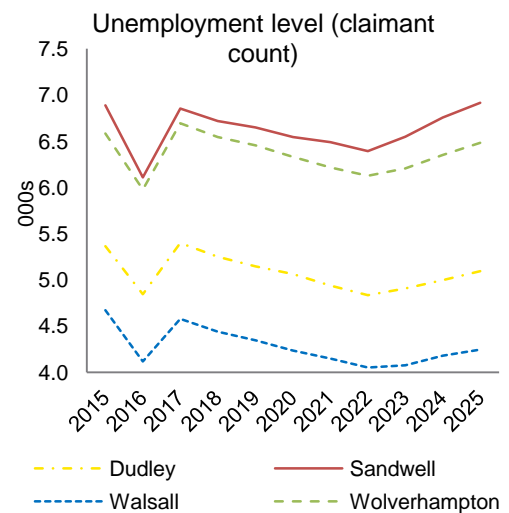
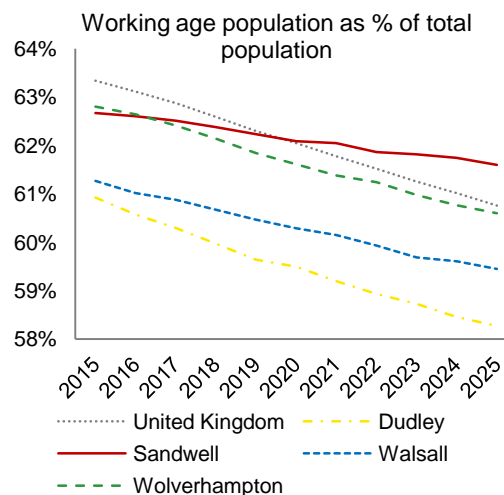
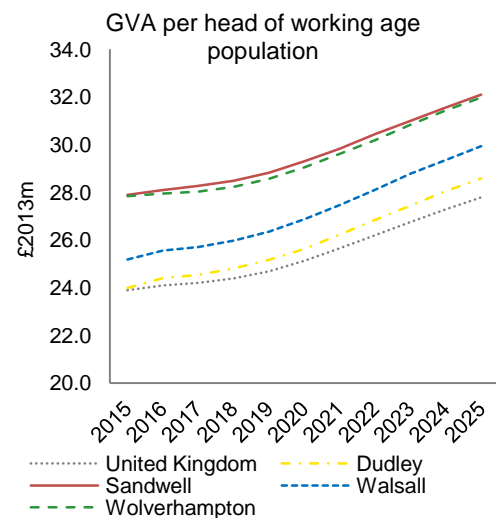
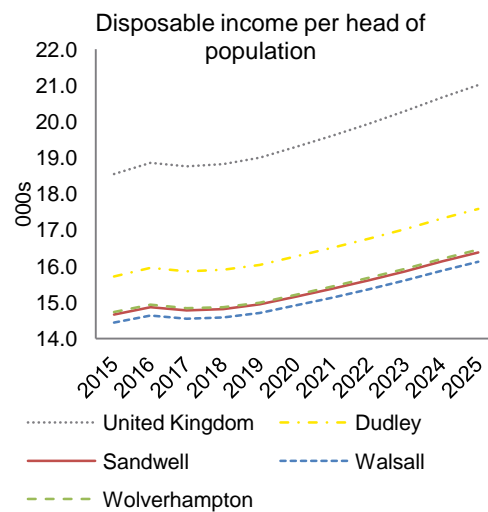
Revenue budget (£'m)	Net budget	Forecast	Variance	Variance %	
Cabinet meeting on 22 July 2015 Corporate Financial Performance	93.70	99.07	5.27	5.6%	Evidence of the reporting of cost pressure and action taken to address the overspend
Cabinet meeting on 28 October 2015 Corporate Financial Performance	93.70	102.02	8.32	8.9%	102.02 forecast, but requested use of two earmarked reserves (£3.15m and £4.68m)
Cabinet meeting on 27 April 2016 Corporate Financial Performance	93.69	92.81	-0.88	0.9%	
Cabinet meeting on 15 June 2016 Pre-Audit Outturn 2015/16	93.70	93.00	-0.7	0.7%	

The Council has been able to demonstrate that it took steps to revisit its arrangements during 2015/16 to respond to the Autumn Statement.

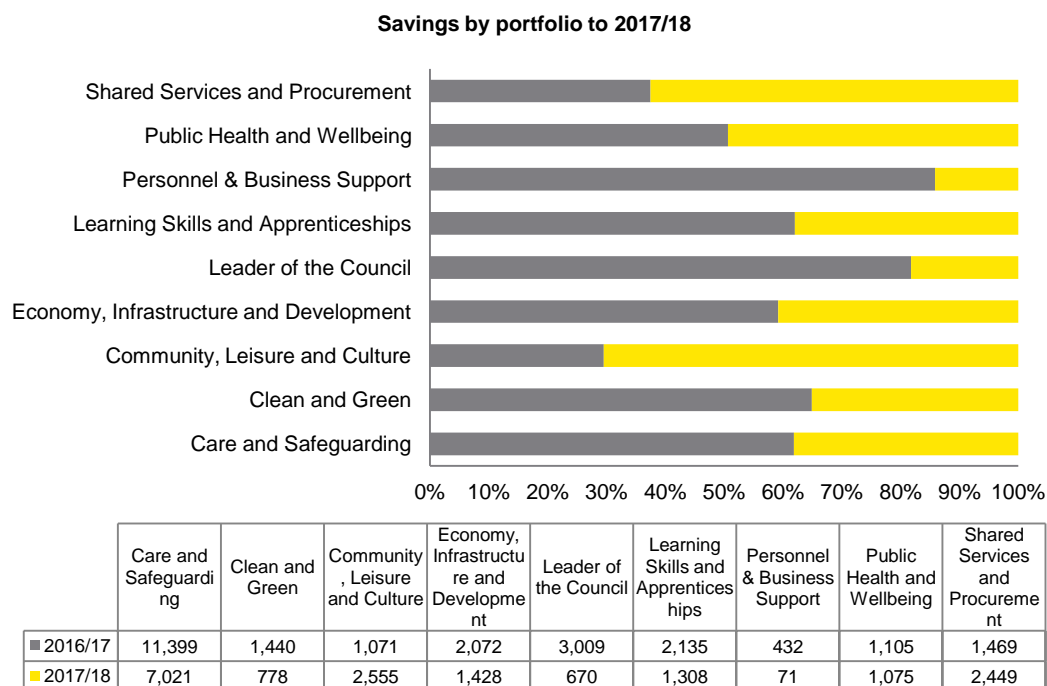
Looking ahead

Reduced levels of central government mixed with challenging local socio-economics and demographics means the Council needs to identify a significant amount of efficiency and cost savings between 2016/17 and 2019/20. The following four charts are based on the local authority areas of Walsall, Sandwell, Wolverhampton and Dudley using information last updated on 29 July 2016 from EY's Global Economic Update site, which is linked to the Oxford Economics site: the only global service of its kind, this comprehensive set of data and forecasting services covers over 3,000 cities and sub-regions.

They help demonstrate the similarities and differences across Wolverhampton and the Black Country as well as putting performance in the UK context.



The Council's Corporate Budget Plan, as presented to the 3 February Cabinet meeting, included proposals for £41.4 million over 2016/17 and 2017/18:



Should all the savings be realised, the Council will still be faced with identifying and securing a further £43.4 million between 2018/19 and 2019/20. The Council recognises further work will be required to develop the actions, opportunities and policies needed to bridge the gap.

The forecast of the revenue and capital position for 2016/17 (Cabinet, 27 July 2016) as at 30 May 2016 shows a forecast revenue overspend of £3.56million, after use of reserves and assuming successful delivery of corrective action plans. This reduced to £2.56million once Cabinet approved the use of £1million general reserves.

The Council still has a number of challenges ahead and the way residents' needs are met and services are provided will need to continue to evolve. The delivery of challenging savings targets and the management of current and future pressures is crucial to the delivery of the Medium Term Financial Plan.

4.1.2 Areas kept under review

The work and reports of regulators, such as the Care Quality Commission and OFSTED

From meetings with management and from our independent review of the work of the Care Quality Commission and OFSTED, there are no indicators of inadequate scores or ratings from the regulator that indicate that the Council has inadequate arrangements.

The local health economy, including adult social care, and in particular the outcome measures of the Better Care Fund and the extent to which the Council's arrangements are impacted through the challenges faced by Walsall Healthcare NHS Trust

The Health Walsall Partnership Board was established in 2015 as a partnership between Walsall CCG, Walsall Healthcare NHS Trust, Walsall Council and Dudley and Walsall Mental Health Partnership NHS Trust. The purpose of the Partnership was to improve the health of the people of Walsall through the establishment of an integrated health and social care system. This Partnership Board will support the support delivery of the priorities and plans set out in the Better Care Fund and will need to factor in the implications of the introduction of the Black Country Sustainability and Transformation Plan.

As shown in Note 10 to the Council's financial statements, the £24million Better Care Fund pooled budget resulted in a small surplus for 2015/16. Our work on the financial statements did not identify any material errors with this disclosure note and we are assured that it is a fair presentation of the financial position.

The Council has agreed a 2016/17 Better Care Fund Plan, recognising that delivery of its objectives will not be fully achieved without the co-ordinated input of all partners within the health and social care system. We are now in the second year of the Better Care Fund existence and many partners have developed their plans for collaborative working, including:

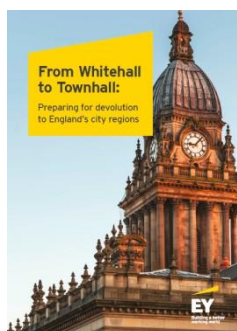
- ▶ Reviewing care pathways to deliver improved patient outcomes and genuine system wide efficiencies;
- ▶ Revisiting governance arrangements after a year's experience;
- ▶ Working towards fully integrating commissioning;
- ▶ Further honing arrangements for reporting financial and non-financial information; and
- ▶ Delivering fair risk share arrangements between partners.

Bodies will need to work together to a far greater extent than ever before to ensure that sustainability and financial plans are viable, and successfully delivered. Failure to do this could have wider adverse financial and service delivery consequences across the whole local area.

The significance of the transformation programmes impacting Walsall in the coming years increase the risk of the Council being party to agreements or actions which it has not properly considered or agreed upon. Robust governance structures are essential to ensure the Council has proper oversight and consideration of relevant proposals to ensure statutory and organisational responsibilities of the Council are properly considered and safeguarded.

As your external auditor we need to gain an understanding of your wider approach and plans, and the impact of greater partnership working on your governance, internal control and financial reporting.

The Council's approach to devolution and the governance applied to the Combined Authority



Large parts of England have started to agree Devolution Deals, which transfer powers in policy areas such as housing, planning and transport, education, employment, skills, health and policing. Eleven deals have been announced so far, with eight areas agreeing to directly elected mayors, and almost every other part of the country is involved in discussions. The recent progress is testament to the credibility that local government has established — with both the government and the public — as local leaders with a vision for local economies and wise stewards of public funds.

The reasons for pursuing devolution, and the specific benefits being targeted, will vary across city regions, depending on local needs and circumstances. The severity of recent cuts in local government budgets is certainly a powerful incentive for metropolitan authorities in particular to collaborate more closely.

But for the government and local political leaders, economic growth is the big prize. Unleashing the potential of the eight original “core cities” could generate an additional £222 billion of GDP and 1.2 million jobs by 2030, according to Oxford Economics.

The West Midlands Combined Authority deal was agreed in November 2015. The agreement includes powers to support adult skills provision and employment support, and the ability to

create an integrated approach to local public transport, including a single smart ticketing system.

Walsall and its partners have had to move rapidly to build the relationships, trust and shared vision that are crucial to a successful combined authority, and develop a greater willingness to pool sovereignty.

We have met regularly with the Council's chief executive to discuss progress and have reviewed the various reports provided to Cabinet and Council that support the decision making process on the proposals for a West Midlands Combined Authority. For the decisions made in 2015/16, we are satisfied there is no impact to our Value for Money conclusion.

The outcome of other aspects of assurance work, such as the audited financial position and the Head of Internal Audit's opinion

We have met with Internal Audit and reviewed key reports on the Council's control environment. We note that the Internal Audit Annual Report for 2015/16, as presented to the June meeting of the Audit Committee, concluded that a "significant level of assurance can be provided in relation to the overall adequacy and effectiveness of Walsall Council's framework of governance, risk management and control (the internal control environment).

We are satisfied that there were no new or undetected significant risks to the value for money conclusion arising through the work of Internal Audit. The service has transferred to Mazars LLP for 2016/17 and we will continue to liaise with Internal Audit to remain alert to any new or emergent risks.

The Council's Movement in Reserves Statement provides a useful summary of the Council's financial position:

£'m	General Fund	Schools balances	Earmarked Reserves	Total Usable Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves
Balance at 1 April 2014	14.9	13.1	119.5	147.4	5.7	18.3	171.4
Increase in 2014/15	(3.4)	0.3	12.3	9.3	1.5	4.6	15.4
Balance at 31 March 2015	11.5	13.3	131.9	156.7	7.2	23.0	186.8
Increase/(Decrease) in 2015/16	2.6	(2.9)	(12.0)	(12.2)	1.0	(2.0)	(13.3)
Balance at 31 March 2016	14.1	10.4	119.9	144.5	8.1	21.0	173.5

Overall, there has been a £12.2million decrease to revenue reserves, but most of that is attributable to the movement in earmarked reserves which by nature are allocated for specific items of expenditure. Importantly there has been a £2.6million increase to the general fund. Capital reserves remain broadly consistent with the prior period. Overall, we do not believe this to be an indicator of a significant risk to the VFM conclusion.

4.2 Overall conclusion

Based on the work performed and key findings as set out above, we expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

Appendix A – Detailed audit findings

Unadjusted misstatements

There is one audit finding that has not been adjusted for by management. It relates to the accounting for Oak Park Leisure Centre which was written out of the Council's books in 2015/16, but because the leisure centre was still operational, the accounting entries should have been applied in 2016/17. This means the Council has recorded the disposal too early, with fixed assets understated and expenditure (for the loss on disposal) overstated in 2015/16.

Under local government accounting rules, there is no impact to the general fund because the accounting transactions are reversed out of the income expenditure account into unusable reserves.

Corrected audit differences

We set out below the corrected audit differences above £730,000 that were identified during the course of our audit and warrant communicating to you.

These items have been corrected by management within the revised financial statements.

No adjustment impacts on the Council's general fund.

Balances effected	Amount £'m	Explanation	Impact
Long-term investments	1.9	Birmingham Airport shares were revalued during the year with an increase in the Council's share from £18.6million to £20.5million. This adjustment is the result of a timing issue, where information is provided to the Council after the accounts were produced.	Balance sheet impact only, no benefit or charge to the Council's general fund.

Disclosures

Disclosure	Explanation
Note 10 – Better Care Fund	We suggested some narrative improvements to the note to improve the quality of the disclosure note.
Note 13 - Exit packages	Our testing identified some discrepancies in the recording of the number and value of exit packages in this note to the accounts. We did not identify any errors over whether the exit package was accounted for in the correct year, only the number presented in this note.
Note 34 – Financial instruments	The note to the accounts has been updated to show total interest expense of £21million, not £17million. There is no impact on actual expenditure during the year.

In addition to the above, we made a small number of other narrative adjustments to disclosures, none of which are judged significant enough to be brought to the attention of the Audit Committee.

Appendix B – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated February 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee in September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of February 2016.

Appendix C – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

	Predecessor auditor fee	EY planned fee	EY forecast fee
Financial statements and VFM conclusion	£190,470	£142,853	£142,853
Certification fees	£19,210	£14,087	£14,087

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix D – Draft audit report

Independent auditor's report to the members of Walsall Metropolitan Borough Council

Opinion on the Authority's financial statements

We have audited the financial statements of Walsall Metropolitan Borough Council for the year ended 31 March 2016 the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Walsall Metropolitan Borough Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- ▶ have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Statement and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement does not comply with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 (updated as at December 2012);
- ▶ we issue a report in the public interest under section 24 of the Act; or
- ▶ we make a written recommendation to the Authority under section 24 of the Act; or
- ▶ we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

CONCLUSION ON WALSALL METROPOLITAN BOROUGH COUNCIL'S ARRANGEMENTS FOR SECURING ECONOMY, EFFICIENCY AND EFFECTIVENESS IN THE USE OF RESOURCES

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2015, as to whether Walsall Metropolitan Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Walsall Metropolitan Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Walsall Metropolitan Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, 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 2016.

Appendix E – Management representation letter

DATE

Ernst & Young
No. 1 Colmore Square
Birmingham
B4 6HQ

This letter of representations is provided in connection with your audit of the financial statements of Walsall Metropolitan Borough Council (“the Council”) for the year ended 31/03/2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Walsall Metropolitan Borough Council as of 31/03/2016 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by “whistleblowers”) which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
 3. We have made available to you all minutes of the meetings of the Council and Cabinet and Audit committees held through the Financial Year to the most recent meeting on the following date: 9 September 2016.
 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the Financial Year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
 5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
 6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the Accounting Policies to the financial statements all guarantees that we have given to third parties.
4. No claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the Valuations of specified Land and Property and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.
2. We agree with the significant judgements and interpretation of accounting standards that underpin our accounting for each PFI scheme.

Yours faithfully,

(Chief Finance Officer)

(Chair of the Audit Committee)

Appendix F – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits 	Audit Results Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Walsall Metropolitan Borough Council's ability to continue as a going concern for the 12 months from the date of our report.
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.

Required communication	Reference
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations.
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have not identified any material instances of non-compliance with laws and regulations.
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
Significant deficiencies in internal controls identified during the audit	Annual Audit Letter/Audit Results Report
Fee Information <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan Breakdown of fee information at the completion of the audit	Audit Plan Audit Results Report Annual Audit Letter (if considered necessary)
Certification work Summary of certification work undertaken	Certification Report

Appendix G – Financial ratio definitions

Key financial ratios	Definition	Calculation
Net cost of services as % of gross expenditure	A measure of financial operational performance	Net Costs of Services divided by Gross Expenditure - Cost of Services
(Surplus)/Deficit on provision of services as % of gross expenditure	A measure of financial operational performance	(Surplus)/Deficit on provision of services divided by Gross Expenditure - Cost of Services
Current ratio	The current ratio is a liquidity ratio that measures whether or not a firm has enough resources to meet its short-term and long-term obligations	Current assets divided by current liabilities
Cash, cash equivalents and short-term investments	A measure of the Council's short term assets	Taken direct from the balance sheet
Creditors, accruals and short term loans	A measure of the Council's immediate liabilities	Taken direct from the balance sheet
Asset turnover ratio	The asset turnover ratio is a measure of a company's ability to use its assets to generate sales or revenue, and is a calculation of the amount of sales or revenue generated per dollar of assets.	The formula for the ratio is as follows: Gross Income - Cost of Services ÷ Total PPE & Investment Properties
Net assets	The overall net assets of the Council	Taken direct from the balance sheet
Movement in net worth	The movement year-on-year of the Council's net assets	As per definition

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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