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Informing the audit risk assessment for Walsall Metropolitan Borough Council 2019/20

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Authority's external auditors and the Authority's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit and Governance Committee's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.



Purpose

This report includes a series of questions on each of these areas and the response we have received from the Authority's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.



General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	Introduction of IFRS 16 Leases from 1 April 2020 requiring disclosure of the expected impact of accounting changes.
2. Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Accounting policies have been reviewed in preparation for the 2019/20 statement of accounts with reference to the CIPFA Code of Practice on Local Authority Accounting. This review has currently only identified one potential change in relation to de-minimus levels. Formal review of the Council's accounting policies is undertaken annually in April where they are presented to Audit Committee. Accounting Policies in relation to the 2019/20 financial year are therefore due to be reviewed and reported to Audit Committee for approval in April 2020. There have been no events or transactions that require changes to or adoption of new accounting policies.
3. Is there any use of financial instruments, including derivatives?	Yes. Financial instruments are accounted for and disclosed as required by IFRS 9 Financial Instruments and The Code Of Practice on Local Government Accounting. The Council does not enter into derivatives.
4. Are you aware of any significant transactions outside the normal course of business?	No.



General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No.
6. Are you aware of any guarantee contracts?	Walsall Council acts as guarantor in relation to a number of admitted bodies to the West Midlands Local Government Pension Scheme. The level of assets and liabilities for each is reviewed annually and any which are material would be disclosed in the Statement of Accounts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None other than those disclosed of in the Contingent Liabilities note within the Statement of Accounts.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>The Council has used the following solicitors during 2019/20, none of which are open litigation.</p> <p>Browne Jacobson Solicitors Thompsons Solicitors Eversheds Sutherland LLP Silks</p>
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No.



General Enquiries of Management

Question	Management response
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p><u>Single Accountable Body (LEP Funds)</u></p> <p>Freeths LLP – legal advice for grant agreements</p> <p>Thomas Lister- property technical advice and valuations, and monitoring on project applicants to LEP funds</p> <p>Cushman & Wakefield - support for Enterprise Zone financial modelling</p> <p><u>Council</u></p> <p>Freeths LLP – Saddlers Centre</p> <p>Avison Young – Saddlers Centre</p> <p>Jones Lang LaSalle – Property valuations</p> <p>Arcadis – Town centre regeneration</p> <p>Shopappy – Independent business marketing</p> <p>PWC – Walsall Proud Programme (WPP)</p> <p>Link Asset Services – Treasury Management & Leasing</p>



Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Authority's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Authority's management.



Fraud risk assessment

Question	Management response
<p>1. Have the Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How does the Council's risk management processes link to financial reporting?</p>	<p>Yes.</p> <p>An assessment of the key risks to the financial statements is undertaken annually. This covers areas where there is a higher risk of misstatement or potential error and ensures that sufficient controls and checks are in place to mitigate the risk. The assessment includes the review of findings from external audits interim audit of the accounts and internal audits annual review of core financial systems, which includes the risk of fraud, coverage of internal controls including approvals, segregation of duties, potential for override of controls, etc. From these, management are able to gain assurance that key financial, IT and internal control systems are in place and working effectively. Management also ensure that recommendations arising from audits are actioned promptly.</p> <p>The nature of the assessment also includes a review and sign off by the CFO of accounting estimates, judgments and decisions, senior finance officer reviews of working papers of the financial statements, appropriate segregations of duties in respect of entries within the accounts, journal controls, and creditor/debtor balance reviews, ensuring that revenue is appropriately recognised in the accounts.</p> <p>Key procedures are reviewed and kept up to date, and when new systems or policy changes occur (for example the annual review of treasury management (TM) policy statements and practices) training / briefings are provided.</p> <p>Recommendations from internal and external audit reports are actioned promptly and management review progress in implementation. Follow ups are made on No or Limited Assurance audits to ensure action is being taken to improve internal controls and minimise the risk of fraud or error. Progress is reported to Audit Committee.</p>



Fraud risk assessment

Question	Management response
<p>1. How does the Council's risk management processes link to financial reporting?</p>	<p>Management processes include a review of results of the external auditors audit of the accounts each year and the ISA260 report, which are reported to Audit Committee, and key recommendations are promptly followed up / implemented.</p> <p>The CFO and the Chief Executive are required to provide assurance in the form of the Annual Letter of Representation on matters relating to the financial statements, to which the Monitoring Officer (MO) contributes.</p> <p>Review of arrangements for counter fraud and anti-corruption are undertaken regularly. The last formal change to both the Counter Fraud Policy and the Anti-Money Laundering Policy was undertaken in 2017 and reported to Audit Committee in April 2017, with revised Counter Fraud and Anti-Money Laundering Policies then published.</p> <p>During 2019 a review has been undertaken using the Fighting Fraud and Corruption Locally 2016-2019 resource, which is a local government strategy that provides good practice advice and guidance to local authorities with regards to tackling Fraud and Corruption and is supported by the CIPFA Counter Fraud Centre. The outcome of this review was reported to Audit Committee at the end of 2019 with a outline work programme to refresh the Counter Fraud Policy and report back to Audit Committee in April 2020.</p> <p>Training is provided on key policies and procedures including the Code of Conduct, internal controls, risk, etc and appropriate segregation of duties is maintained. Training is also provided in key areas of the Statements and changes in accounting policies and their implications on the statements. The review of the statement of accounts focuses on the suitability of accounting policies and treatments, changes in policy, major areas of judgement such as provisions, and any significant adjustments. Once this has been covered and assurance received, the accounts are approved.</p> <p>Recommendations and actions from internal audit reports are followed up to ensure control weaknesses are mitigated. Follow ups are made on No or Limited Assurance audits to ensure action is being taken to improve internal controls and minimise the risk of fraud or error. Progress is reported to Audit Committee.</p>



Fraud risk assessment

Question	Management response
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Treasury transactions and Financial Systems supplier bank set up and amendment are considered to be areas of risk, however the Council has in place segregation of duties processes to reduce these risks. These areas are also tested annually in line with the annual internal audit plan.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>A small number of allegations were reported and investigated.</p> <p>Where fraud or corruption is reported, there are robust mechanisms in place to report on and address these. Internal Audit present regular summary reports on their work activity including where suspected fraud has taken place and has been investigated. Significant breaches of internal control are reported to Audit Committee. Follow up audits are done where there is a No or Limited assurance finding and these are reported to the Committee. The Committee calls in senior managers as appropriate to receive assurance that breaches or significant control weaknesses are being addressed.</p> <p>'Notification of any issues of importance for consideration at a future meeting' is also a standard item on the agenda of each meeting of the Committee which gives a vehicle by which members can be informed of any significant breaches of internal control. Significant breaches of control are reported to the Committee and follow up reports made as appropriate.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p>	<p>No.</p> <p>See response to question 2 above.</p>



Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>High fraud risk areas form part of the Internal Audit plan. Recommendations arising from audits are implemented and kept under review. The current risk register is under review and a programme of proactive counter fraud activity is being developed. The council maintains a zero tolerance approach to fraud, including prosecuting fraudsters.</p>
<p>5. What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>In any organisation the size and complexity of Walsall Council, there is a risk of fraud and whilst this can be mitigated with an appropriate control framework and effective prevention and deterrence strategies, it cannot be fully eliminated.</p> <p>The council has a comprehensive internal control framework, which includes both proactive and reactive counter fraud activity. The council has a clear policy on counter fraud and money laundering and counter fraud arrangements which are communicated to employees (and stakeholders where appropriate e.g. to contractors via contract documentation).</p> <p>All employees (and members) are encouraged to report any concerns about fraud. All employees are issued with an employee Code of Conduct on employment and, during induction, the importance of ethical behaviour is made clear. The Code was updated in 2019. The Code is also referenced in other HR and counter fraud policies and is made available on the intranet. The Code of Governance also sets out responsibilities and expectations in relation to good business practice and ethical behaviour and this was updated and endorsed by Audit Committee on 25th September 2017.</p> <p>The Council's Behaviour and Standards Framework sets out the values that will help to achieve the Council's vision and priorities. These values underpin the way the Council operates as an organisation. These values are Professionalism, Leadership, Accountability, Transparency, Ethical (PLATE).</p>



Fraud risk assessment

Question	Management response
<p>6. How would you assess the overall control environment for the Council, including:</p> <p>The process for reviewing the effectiveness of the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Managers are charged with ensuring there are adequate internal controls in place within their services, which are proportionate to the risk of fraud. The organisation has comprehensive governance arrangements in place, including rules of procedure, finance and contract rules, a scheme of delegation which is regularly updated, an authorised signatory list and services are required to have appropriate segregation of duties which are in place and enforced.</p> <p>The adequacy of controls is reported annually via Internal Audit's Annual Opinion Report on the adequacy of the internal control environment. The report in relation to 2018/19 advised that the Council's governance, risk management and internal control arrangements are substantial in their overall adequacy and effectiveness. The Annual Effectiveness Review of the System of Internal Control and the Annual Governance Statement 2018/19 also reported formally and advised that the system of internal control is adequate.</p> <p>As stated in previous responses, high risk areas in relation to fraud are tested via the internal audit plan. Reports are presented to Audit Committee along with recommendations and these are tracked. This includes a rolling 5 year schools audit plan.</p> <p>There are policies and procedures in place in relation to fraud reporting and identification.</p> <p>Internal fraud investigation resource in place and the council has access to both internal and external resource, as required. The fraud risk register is currently being updated and a proactive fraud risk programme in development, including e-learning and awareness raising.</p> <p>Training is provided on key policies and procedures including the Code of Conduct, internal controls, risk, etc and the importance of appropriate segregation of duties being maintained. Training materials are also available via the E-Learning Portal.</p>



Fraud risk assessment

Question	Management response
<p>6. How would you assess the overall control environment for the Council, including:</p> <p>The process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>In any organisation the size and complexity of Walsall MBC, there is a risk of fraud and whilst this can be mitigated with an appropriate control framework and effective prevention and deterrence strategies, it cannot be fully eliminated.</p> <p>Management are not aware of any instances of controls being overridden.</p> <p>Financial reporting processes are set out in the budget management and control manual, vital skills training for non-financial managers, and are supported by specific procedures and accounting policies.</p> <p>Accounting arrangements are undertaken in accordance with all relevant Codes of Practice. Comprehensive final accounts guidelines and outturn proformas, along with risk assessments of the financial outturn, senior officer review of reports and the accounts, officer review of provisions, reserves, carry forwards, accruals and liabilities, ensure override of controls or inappropriate influence is minimised. Analytical review of the income and expenditure account and balance sheet adds to this. Major variances between years and in years are reviewed for accuracy.</p> <p>The Accounts are independently audited.</p> <p>Walsall MBC, as any Authority, is under financial pressure from reduced government funding and increases in demand and cost pressures, particularly within Adult Social Care and Children's Services. However managers are expected to deliver services within the approved budget. It is recognised that changes in demand, legislation, etc. may occur once a budget has been set. The council undertakes a comprehensive risk assessment of the budget and has appropriate processes in place to manage these, including an appropriate level of general reserves and contingencies being in place to manage these scenarios.</p>



Fraud risk assessment

Question	Management response
<p>6. How would you assess the overall control environment for the Council, including:</p> <p>The process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The council has a sound track record in managing areas of pressure, and appropriate financial mechanisms to manage these.</p> <p>Management are not aware of any undue pressure to meet operating or financial targets, and none of the council's consultative vehicles have indicated that this is a problem area.</p>



Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	See response to 6 above.
<p>8. How does the Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>All employees are issued with an employee Code of Conduct on employment and, during induction, the importance of ethical behaviour is made clear. The Code was updated in 2019. The Code is also referenced in other HR and counter fraud policies and is made available on the intranet. The Code of Governance also sets out responsibilities and expectations in relation to good business practice and ethical behaviour and this was updated and endorsed by Audit Committee on 25th September 2017. Audit Committee has oversight of the Code of Governance.</p> <p>Updates are provided on counter fraud as appropriate, and when policies are reviewed. Contractors are advised about the council's policies via contract documentation.</p> <p>The employee Code of Conduct, the Code of Governance, and counter fraud policies and the whistle blowing policy provide clear guidance on reporting arrangements for suspected or actual fraud. The revised policies have been communicated to staff and Internal Audit are currently planning a fraud awareness raising programme during 2020/21.</p> <p>No significant issues have been identified.</p>



Fraud risk assessment

Question	Management response
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>The Council's senior management team, S151 and Deputy S151 Officer and in line with question 2 above Treasury Management and Financial Systems based staff.</p> <p>The Council has in place segregation of duties processes to reduce these risks, and in relation to Treasury Management and Financial Systems these areas are also tested annually in line with the annual internal audit plan.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No.</p> <p>The Council operates a scheme of delegation and segregation of duty policies in relation to ordering, approving, entering payment details and then making the physical payment. Additionally accounts payable is tested in line with the internal audit annual audit plan. The Council also has in place Contract Rules which set out the required processes to be followed in relation to procurement and tendering of contracts. There is also a requirement for Members and Officers to declare (and keep up to date) any interests in external organisations and related parties. These controls reduce these risks.</p>



Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Audit Committee regularly scrutinise strategic risks and call in risk owners as required for assurance purposes. The Committee has oversight of Internal Audit's work plan, which covers the main areas of internal control risk.</p> <p>There is a robust counter fraud / anti corruption policy in place and resources to support this are included in the Committee's work programme.</p> <p>Where fraud or corruption is reported, there are robust mechanisms in place to report on and address these. Internal Audit present regular summary reports on their work activity including where suspected fraud has taken place and has been investigated. Significant breaches of internal control are reported to Audit Committee. Follow up audits are done where there is a No or Limited assurance finding and these are reported to the Committee. The Committee calls in senior managers as appropriate to receive assurance that breaches or significant control weaknesses are being addressed.</p> <p>'Notification of any issues of importance for consideration at a future meeting' is also a standard item on the agenda of each meeting of the Committee which gives a vehicle by which members can be informed of any significant breaches of internal control. Significant breaches of control are reported to the Committee and follow up reports made as appropriate.</p>

Fraud risk assessment

Question	Management response
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	No
13. Have any reports been made under the Bribery Act?	No



Law and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Authority's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.



Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>The council has a corporate governance framework in place against which elected members and officers are held to account to act in accordance with the law and regulations. The council has appointed a monitoring officer (MO) to ensure that the council acts lawfully and provides the MO with sufficient resources to enable him to carry out his role. In addition, the council has an Internal Audit section to test and report on compliance and performance against the governance framework.</p> <p>Management gains assurance through various mechanisms, as set out below, however management cannot obtain full assurance, only reasonable assurance, which is gained through its knowledge of the organisation and the controls in place.</p> <p>The various mechanisms are:</p> <ul style="list-style-type: none"> • That the council has robust contract and finance rules and a scheme of delegations in place, which are updated on a regular basis. • The Chief Executive and other corporate officers set out clear expectations in respect of behaviours and conduct in respect of adherence to statutory and council rules, regulations and procedures, supported by a suite of procedures, guidance manuals and procedures advising how to comply and who can provide support and advice in these matters. • Through Executive Director, Assistant Director and Head of Service assurances as part of the final accounts process. • Through the work of the Internal and External Auditors, • Through the actions of professional officers across the council complying with the corporate governance framework • Through committee reporting processes where reports requiring decision-making are required to have been consulted on with Finance and Legal Officers to ensure appropriate advice is given.



Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<ul style="list-style-type: none"> • Through the committee reporting process, which provides for legal comment on all reports where the council is exercising functions. • Through provision of a range of intelligence and updates on legislative changes and their implications including through external means, such as LGA, LGIU, SIGOMA, professional bodies, and internal means such as policy briefings. • To assist the MO in his function the council has a fully staffed internal legal services department that is responsible for ensuring that the council acts lawfully. • A standing item on the monthly management team agenda is entitled 'Issues for the Monitoring Officer'. This allows management team members across Legal and Democratic Services to raise any issues of governance, and actual or potential unlawfulness. <p>The Committee gains assurance through various mechanisms, as set out below, however the Committee cannot obtain full assurance, only reasonable assurance, which is gained through its knowledge of the organisation and the controls in place.</p> <p>The various mechanisms include:</p> <ul style="list-style-type: none"> • The Committee has oversight of changes to the Constitution, finance and contract rules and also receives reports detailing significant decisions made under officers delegated powers within the financial year, highlighting the key decisions taken within the council directorates and the officer who took the delegated decision. • Through the Annual Governance Statement and review of the effectiveness of the System of Internal Control. • Through the CFO assurances provided during the sign off of the Statement of Accounts.



Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<ul style="list-style-type: none"> • Through work in signing off the Management Letter of Representation during the Statement of Accounts (signed by CFO and CEO). • Through this report whereby specific questions are asked of management concerning compliance with laws and regulations. • Through the work of internal and external auditors, and the Chief Financial Officer, assessing and reporting on controls and any breaches. • Through assurances provided by the CFO (Statement of Accounts), Internal Audit (internal controls), the Chief Executive and Leader (AGS). • All reports requiring decision making are required to have been consulted on with Finance and Legal Officers to ensure appropriate advice is given. • The annual review of the effectiveness of the internal control framework. <p>The council has a corporate governance framework in place against which elected members and officers are held to account to act in accordance with the law and regulations.</p> <p>The council has a designated monitoring officer (MO) to ensure that the council acts lawfully, and by law has to provide the MO with sufficient resources to enable him to carry out his role.</p> <p>The council has an Internal Audit section to test and report on compliance and performance against the governance framework, and an Audit Committee and Standards Committee to oversee issues of governance.</p>



Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>The council has an established Constitution, Codes of Conduct, policies in relation to whistleblowing and counter fraud, which set out expected behaviours and rules in respect of compliance with laws and regulations. There are arrangements in place for legal screening of all decisions coming before the Council, Executive or Committees of the same for a decision, which is incorporated in the report writing protocol. Lawyers attend all decision-making meetings to advise on the law and procedure. The MO, CFO and Chief Executive meet regularly to consider governance issues.</p> <p>Management are not aware of any instances.</p>



Impact of laws and regulations

Question	Management response
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Committee gains assurance through various mechanisms, as set out below, however the Committee cannot obtain full assurance, only reasonable assurance, which is gained through its knowledge of the organisation and the controls in place.</p> <p>The various mechanisms include:</p> <ul style="list-style-type: none"> • The Committee has oversight of changes to the Constitution, finance and contract rules and also receives reports detailing significant decisions made under officers delegated powers within the financial year, highlighting the key decisions taken within the council directorates and the officer who took the delegated decision. • Through the Annual Governance Statement and review of the effectiveness of the System of Internal Control. • Through the CFO assurances provided during the sign off of the Statement of Accounts. • Through work in signing off the Management Letter of Representation during the Statement of Accounts (signed by CFO and CEO). • Through this report whereby specific questions are asked of management concerning compliance with laws and regulations. • Through the work of internal and external auditors, and the Chief Financial Officer, assessing and reporting on controls and any breaches. • Through assurances provided by the CFO (Statement of Accounts), Internal Audit (internal controls), the Chief Executive and Leader (AGS). • All reports requiring decision making are required to have been consulted on with Finance and Legal Officers to ensure appropriate advice is given. • The annual review of the effectiveness of the internal control framework.



Impact of laws and regulations

Question	Management response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	Management are not aware of any instances.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	There are no known actual or potential claims that would affect the statements that have not already been considered in year and accounted for as appropriate. Litigation or claims that arise after the date of this response will be brought to the attention of Audit Committee and external audit if they arise.
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<p>The council has procedures in place to ensure litigation and claims are identified, evaluated and accounted for. Procedures are in place to notify the MO of any litigation or claims – see previous responses above.</p> <p>The MO, CFO, and senior legal and finance officers liaise on a regular basis to discuss actual and potential litigation or claims and ensure these are appropriately accounted for. The councils in-house insurance team also work closely with services, legal and finance on these matters.</p> <p>Senior management are required to complete an annual return to confirm any known or potential instances of litigation or claims.</p>



Impact of laws and regulations

Question	Management response
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	Management are not aware of any such reports.



Going Concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.



Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Council? What was the outcome of that assessment?</p>	<p>The CIPFA Bulletin 01 – Closure of the 2017/18 Financial Statements issued in February 2018 sets out CIPFA's view on going concern as follows:</p> <p>The provisions in the Code of Practice on the going concern requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be prepared on anything other than a going concern basis.</p> <p>However the Council will still undertake a review as part of the 2019/20 financial statements which is expected at this point to confirm the Walsall MBC is a going concern for the foreseeable future, as the statutory duties undertaken by the council and the method in which funding is raised and provided by central Government are set to continue.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?</p>	<p>Yes.</p>

Going concern considerations

Question	Management response
<p>3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p>Yes. As part of the Medium Term Financial Outlook (MTFO) and Corporate Budget Plan the impact of any statutory or policy changes are considered and reflected within the budget.</p> <p>Financial forecasts are produced and reported during the year and any financial pressures relating to changes in demand, legislation, etc. that occur once the budget has been set are incorporated within the overall council position to understand the potential call on general reserves. The council undertakes a comprehensive risk assessment of the budget and has appropriate processes in place to manage these pressures, including an appropriate level of general reserves and contingencies being in place to manage these scenarios.</p> <p>The in year position and MTFO are both considered as part of the going concern report.</p>
<p>4. Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made?</p> <p>(Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	<p>No</p>



Going concern considerations

Question	Management response
<p>5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code?</p> <p>If so, what action is being taken to improve financial performance?</p>	<p>There are no adverse financial indicators in relation to the areas highlighted.</p>
<p>6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives?</p> <p>If not, what action is being taken to obtain those skills?</p>	<p>The council's structure, including the senior management structure, reflects the council's requirements at a point in time, and is reviewed and amended as required to deliver service objectives. Where specific or specialised skills are required, these may be brought in, within overall available resources. The council has identified that it requires additional capacity to support delivery of the council's transformation programme – Walsall Proud Programme – and has contracted an external partner to bring in this additional capacity. This will include skills and knowledge transfer to ensure in house continuation of the programme.</p>



Going concern considerations

Question	Management response
<p>7. Does the Council have procedures in place to assess their ability to continue as a going concern?</p>	<p>The CFO carries out a 'going concern' assessment. This includes an assessment of net worth, assets and liabilities, regular reporting of cash flow projections, use of ratio analysis and the wider balance sheet position.</p> <p>The council has agreed and reports monthly on a set of financial health indicators, which forms part of this assessment along with reporting on other key indicators such as Prudential Code indicators, revenue and capital outturn forecasts, the position on general and earmarked reserves, and a constant review and update of the council's medium term financial outlook, alongside future funding, income and cost predictions and forecasts. The assessment does not focus on just the current years but into the foreseeable future. The MTFO is constantly updated to reflect future changes and fluctuation, specifically in terms of funding and income streams, and significant cost pressures such as pension, pay etc.</p> <p>Additionally, assurance is obtained from the Letter of Representation, which is signed off by the Chief Executive and Chief Finance Officer and approved by Audit Committee, and through a thorough understanding of the financial position of the council and the statement of accounts.</p>



Going concern considerations

Question	Management response
<p>8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?</p>	<p>Management is not aware of the existence of any events/conditions that would cast doubt on the council's ability to continue as a going concern in the foreseeable future.</p>
<p>9. Are arrangements in place to report the going concern assessment to the Audit Committee ?</p> <p>How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>The CIPFA Bulletin 01 – Closure of the 2017/18 Financial Statements issued in February 2018 sets out CIPFA's view on going concern as follows:</p> <p>The provisions in the Code of Practice on the going concern requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be prepared on anything other than a going concern basis.</p> <p>However going concern is also reviewed and reported to the Audit Committee within the Statement of Accounts. The Committee satisfies itself through the assurance gained from the CFO, the responsible officer within the council, for preparing the accounts and providing assurance on their accuracy. Additionally, from the Letter of Representation which is also signed by the Chief Executive and Chief Finance Officer, and through the opportunity to review the financial position of the council and the statement of accounts. Further assurance is provided via the annual external audit of the accounts.</p>



Related Parties

Issue

Matters in relation to Related Parties

Local Authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.



Relating Parties

Question	Management response
<p>1. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships ?</p>	<p>A members interests register is maintained by the council's monitoring officer. Members are required to confirm their interests every year. All council officers are required to complete an interest declaration upon employment. Upon any change in circumstance officers are required to submit new declarations of interest. This requirement is contained within the Council's employees Code of Conduct. These records are examined by the council's Finance Officers to identify any potential related parties which are then checked against council's financial records.</p> <p>Examination of the council's relationships with other organisations, questioning of management and reviews of committee reports is also carried out to ensure other potential related parties are identified.</p>
<p>2. How does the Council authorise and approve significant transactions and arrangements with related parties?</p>	<p>The Council operates a scheme of delegation and segregation of duty policies in relation to ordering, approving, entering payment details and then making the physical payment. Additionally accounts payable is tested in line with the internal audit annual audit plan. The Council also operates delegations in relation to individuals who are enabled to authorise significant transactions, with the number of individuals authorised to approve transactions above £100,000 normally limited to Assistant Directors and above. These controls reduce these risks.</p>
<p>3. How does the Council authorise and approve significant transactions and arrangements outside the normal course of business?</p>	<p>The Council has not identified any arrangements outside of the normal course of business.</p>



Accounting estimates

Issue

Matters in relation to Related Accounting estimates

Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.



Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	Management are not aware of any transactions, events or conditions other than those set out in Appendix A that would require significant judgement.
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
3. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Accounting estimates and judgements are reported to Audit Committee as part of the various reports seeking approval for Accounting Policies and the Statement of Accounts.



Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	Property, Plant & equipment measured according to CIPFA Code of Practice requirements and outlined in the council's accounting policies	Consistent application	Yes in relation to some of the Land and Building valuations	Based on expert/qualified (both internal and external) professional judgement	No
Estimated remaining useful lives of PPE	For land and property assets the estimated useful life is assessed during valuations and then reduced annually until the next valuation date. For other PPE the UEL is assessed at the point of acquisition and reduced annually.	Consistent application	Yes in relation to some of the Land and Building valuations	Based on expert/qualified (both internal and external) professional judgement	No



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	A charge for depreciation is made for all assets with the exception of land. This charge is calculated on a straight line basis dividing the opening NBV plus any enhancements in year by the remaining useful economic life.	Consistent application of depreciation method across all assets.	No	Consistent with accounting policy and asset values derived from expert professional judgement.	No
Impairments	Annual internal review to determine any change in asset condition.	Consistent application	Yes in relation to some of the Land and Building valuations	Based on expert/qualified (both internal and external) professional judgement	No
Measurement of Financial Instruments	Fair values of financial instruments are provided by an external expert and reviewed internally for values are in line with expectations.	Use of market information for credit defaults and interest rates as at year end.	Yes in relation to some of the Land and Building valuations	Based on expert/qualified (both internal and external) professional judgement	No



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Tested against IAS 37 Provisions to ensure that the tests set out in the accounting standard are met.	Consistent application against IAS 37 Provisions	In some instances where warranted.	Based on internal professional judgement	No
Bad Debt Provision	The Council has a number of bad debt provisions for sundry debtors, housing benefit overpayments, council tax and business rates. A provision is determined based on average collection rates.	Use of historical data and any known additional risks.	No	Use of historical data and review of debtors to ensure the level of bad debt provision is appropriate to an appropriate level of default. Alternative calculation methods are reviewed on a periodical basis to ensure the Council maintains a prudent provision.	No



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Accruals are calculated based on whether good and / or services have been received or made by the Council.	Consistent application	No	Based on internal professional judgement	No
Non Adjusting events – events after the balance sheet date	All significant events after the balance sheet date are reviewed against IAS10 Events After the Reporting Period	Consistent application	No	Based on internal professional judgement	No



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	Fund actuary prepares in accordance with IAS 19 Employee Benefits	Consistent application	Yes Barnett Waddingham fund actuary	Based on expert professional judgement	No





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