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

Grant Thornton

The Audit Findings for Walsall Council

Year ended 31 March 2021

Walsall Council

21 September 2021

Contents

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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 planning 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 the Council or all 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.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit Committee.

Name : Jon Roberts
For Grant Thornton UK LLP
Date :

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Walsall Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on remotely during June – September 2021. Our findings are summarised on pages 5 to 27.

We have adjustments to the financial statements which resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C.

We have also raised recommendations for management as a result of our audit work in Appendix A.

Our work is substantially complete but at the time of issue of this report there are a number of areas which will require completion before we can issue our opinion:

- Receipt of assurances from the auditor of West Midlands Pension Fund relating to Local Government Pension scheme net liability
- completion of valuation review for the investment in Birmingham Airport Holdings Limited (BAHL)
- final Audit Manager and Key Audit Partner review of audit testing, in particular for grant income
- completion of IT audit review of IT General Controls and Oracle Fusion implementation
- receipt of management representation letter.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Subject to satisfactory completion of the above areas, we anticipate that our audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix D to this report. We expect to issue our Auditor's Annual Report by 31 October 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of financial sustainability and improving economy, efficiency and effectiveness. Our work on these risks is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's Report in October 2021.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We did not alter our audit risk assessment as set out in our audit plan, communicated to you in March 2021.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 27 September 2021. These outstanding items include:

- Receipt of assurances from the auditor of West Midlands Pension Fund relating to Local Government Pension scheme net liability
- Completion of valuation review for the investment in Birmingham Airport Holdings Limited (BAHL)
- Final Audit Manager and Key Audit Partner review of audit testing, in particular for grant income
- Completion of IT audit review of IT General Controls and Oracle Fusion implementation
- receipt of management representation letter.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

As highlighted in our audit plan presented to the Audit Committee on 23 March 2021, both your finance team and our audit team faced audit challenges again this year due to the increased complexity relating to COVID grant arrangements, and the implementation of the Oracle Fusion ledger from July 2020. This resulted in us having to carry out additional audit procedures in these areas, as summarised on pages 8 and 11. We will discuss and agree the impact on our audit fee with Council officers.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan in March 2021.

We detail in the table below our determination of materiality for Walsall Council

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	9,440,000	Reduced compared to 2019/20 to reflect impact of the implementation of a new general ledger
Performance materiality	7,080,000	
Trivial matters	472,000	
Materiality for senior officers remuneration	-	We determined that we would request amendment of any errors which would be of interest to readers of the accounts

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, this was one of the most significant assessed risks of material misstatement.	We have: • Evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our review of journals included a separate analysis, risk assessment and testing of postings to the Oracle R12 ledger (covering the period April 2020 – June 2020) and the Oracle Fusion ledger (covering the period July 2020 – March 2021.] No issues arose from our work which we consider require reporting to the Audit Committee.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue and expenditure recognition ISA (UK) 240 includes presumed risks as follows: • Revenue recognition may be misstated due to the improper recognition of revenue. • In the public sector, in line with the requirements of Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom - we also consider whether expenditure may be misstated due to the improper recognition of expenditure. • These risks are rebuttable if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue or expenditure recognition. We were able to rebut the presumed risks in relation to the majority of the Council's income and expenditure for 2020/21. The Council was in receipt of material additional COVID-19 related income in 2020/21 to fund additional costs arising due to the pandemic. Due to the varied funding conditions and accounting requirements associated with this income, we considered that we are unable to rebut the presumed risk in relation to these additional COVID-19 related income and expenditure streams for 2020/21.	There were no changes to our risk assessment as reported in the audit plan. For COVID-19 grant funding, we undertook detailed testing: For a sample of grant income recognised by the Council as principal, agreement to grant documentation and evidence of receipt For a sample of grant income recognised by the Council as agent, agreement to grant documentation For all COVID-19 grants, we considered whether the assessment by the Council on whether it was acting as principal or agent was based on a reasonable assessment of relevant factors such as who bears credit risk and responsibility for any overpayments, who determines the amount, who sets the criteria for entitlement, who designs the scheme and whether there are discretionary elements and whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. For related specific expenditure, we reviewed the Council's for process for monitoring the use of grant funds for their prescribed purpose and ensured that this expenditure was included within the population used for expenditure testing. Our audit work did not identify any issues in respect of recognition and presentation of grant income. During the course of our audit, Council finance staff identified two errors in the accounting for grant income Overstatement of both grant income and other service expenditure by £1,483k – no net impact on CIES Overstatement of figure for grants distributed on behalf of central government - £15.1m – disclosure issue only. The financial statements have been adjusted to correct these errors. Although these adjustments were identified by management rather than directly by the audit, for completeness we have included it in the details of adjustments to the draft financial statements set out at appendix B.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Investment property carried at fair value should be revalued at each year end. Additionally, valuations are significant estimates made by management in the accounts. Our 2019/20 opinion included an emphasis of matter paragraph drawing attention to disclosures included in the financial statements of a material uncertainty attached to property valuations as at 31 March 2020 due to the ongoing nature of the Covid-19 pandemic. This paragraph did not represent a modification of our audit opinion.	The Council used both an internal valuer and external valuers (Avison Young and Cushmans) for its asset valuations during 2020/21. The effective date of the valuation undertaken was 1 January 2021. We undertook the following audit procedures; - evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work - evaluated the competence, capabilities and objectivity of the valuation experts used - wrote to each valuer to confirm the basis on which the valuations were carried out - engaged our own valuation specialists to review the terms of engagement and valuation approach for the Council's internal valuation team, and for the valuations undertaken by Avison Young - challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding - tested the full valuation at 1 January 2021 to understand the information and assumptions used in arriving at valuations, include review of detailed valuation calculations for a sample of assets - reviewed management's assessment of the potential impact of movements in valuations between 1 January 2021 and 31 March 2021, which concluded that there had been no material movement in the valuations between these dates - ensured that key data used as the basis for valuations (such as BCIS build cost information) was supported by external evidence - tested revaluations made during the year to see if they had been input correctly into the Council's asset register and that any revaluation movement had been correctly accounted for in the financial statements - used valuation indices to review valuation movements for assets not revalued in 2020/21 to assess whether there was the potential for a material difference to have arisen between the carrying value of assets and current value. We identified the following issues: - our testing of a sample schools valuations identified an error in the calculation for one item. In response management reviewed all other schools valuations and identified further errors which have been corrected. The total impact was to reduce school valuations by £1,101k, with a corresponding reduction to unusable reserves. This is included in the schedule of audit adjustments at appendix B. - we noted that the Council's fixed asset register shows fully depreciated assets with an original cost of £27.9m, mostly equipment assets. Finance staff were unable to provide assurances that these assets were still held and in use by the Council, but informed us that a review of these assets was due to be undertaken in 2021/22. We have raised a recommendation relating to this point in Appendix A. In addition we noted that the Council's valuers did not include a "material uncertainty" caveat in the 2020/21 valuations. Based on the input from our expert valuer and their review of the Council's valuation reports we concluded that it was a reasonable assessment. As a result a disclosure to this effect in the Council's financial statements, and an emphasis of matter paragraph in our audit opinion to draw attention to this disclosure, is not required for 2020/21.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£720m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	We undertook the following procedures: Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report raised queries of management' expert in relation to their assumptions and approach reviewed whether the pension fund has reported any material uncertainty in relation to investment property valuations as at 31 March 2021 requested assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. **At the time of issue of this report, the assurances requested from the auditor of West Midlands Pension Fund had not been received.**

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of investments held at fair value The Council holds material investments, which includes investments held at fair value (£42.7m at 31 March 2021). Valuation of these investments is subject to a high degree of judgement and as such the valuation of these investments is considered to be a significant estimate by management in the financial statements. We identified the valuation of investments held at fair value as a significant risk.	The Council held two investments at fair value at 31 March 2021: CCLA Property Fund - £27m – we agreed the valuation of these investments to direct confirmation from CCLA. Birmingham Airport Holdings Limited's (BAHL) - £15.2m – **at the time of issue of this report, audit work on the valuation of the BAHL investment was ongoing.**
Implementation of new general ledger The Council has implemented a new financial ledger in 2020/21, with the move to Oracle Fusion going live from July 2020. The changes to the general ledger potentially represents a significant change to the accounting systems and processes in place for 2020/21 and as such was identified as a significant risk.	We have obtained assurance on the transfer of balances to the Oracle Fusion ledger by: review of the Council's own reconciliation of balances detailed comparison of balances between the closing TB for the Oracle R12 ledger and the opening position as per the Oracle Fusion ledger. This testing confirmed that balances had been completely and accurately transferred to the new ledger system. In addition our IT audit specialists have undertaken a review of the project management arrangements relating to the implementation of the Oracle Fusion ledger. **At the time of issue of this report this work is ongoing.**

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £355m	Other land and buildings comprises £336m of operational assets, 84% of which relate to specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remaining operational assets together with £12.9m of surplus assets and £6m of investment property have been valued on an open market value basis. All valuations were undertaken as at 31 January 2021 and a review then conducted by use of BCIS indices to assess whether any further material valuation movement would have occurred to 31 March 2021. This indicated that there had been no material movement between the valuation date and the balance sheet date. The Council used its internal valuation team to value assets at DRC, and has engaged external valuers to complete valuations of assets held at open market value. 90% of operational assets were revalued during 2020/21. Management has considered the year end value of those operational assets where were not revalued in 2020/21 by applying indices to update the valuations to 31 March 2021. Management's assessment of assets not revalued has identified no material change to the properties' values. In 2019/20 the Council's valuers reported a 'Material Valuation Uncertainty' clause as a result of the COVID-19 pandemic on asset valuations. For 2020/21 no similar clause has been included in the valuation. Based on the input from our expert valuer and their review of the Council's valuation reports we concluded that it was a reasonable assessment. In total the valuation process for 2020/21 resulted in a net movement in the balance sheet value of land and buildings (taking revaluations and impairments together) of £0.7m and revaluation loss charged to CIES of £3.7m	We are satisfied with management's assertion that the valuation as at 31 March 2021 represents a reasonable estimate.	Light purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Use of auditor's expert	Audit Comments	Assessment
Land and Building valuations – £355m	We have used Wilkes Head and Eve as our auditor expert to assess the valuation approach adopted by the Council's internal valuer, and by Avison Young who were engaged to value elements of assets held at open market value. A summary of their findings is set out below **Comment on the clarity of terms of engagement and instructions.** Wilkes Head and Eve have confirmed that the terms of engagement and instructions issued to and agreed with the Council's internal valuation team are in line with process expectations and therefore are of the view that this element of the process has been covered effectively. The Council also agreed a formal letter of appointment with Avison Young setting out the terms and scope of their appointment. **Commentary on the valuation process** Wilkes Head and Eve concluded that the valuation process undertaken by both the Council's internal valuations team and by Avison Young were in all respects in line with expectations and met the requirements of relevant valuation guidance.	No issues to raise relating to the Council's appointment of valuers and their management of their input to the valuation process.	Light purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate | **Summary of management's approach** | **Audit Comments** | **Assessment**

Net pension liability – £720m

The Council's net pension liability at 31 March 2021 is £720m (PY £572m) comprising the West Midlands Pension Fund Local Government Pension Scheme net liabilities of £707m and unfunded teachers pension liabilities of £13m.

The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2020. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £182m actuarial loss during 2020/21.

We have

- Undertaken an assessment of management's expert
- Assessed the reasonableness of the actuary's approach and of any changes compared to the prior year
- Used PwC as an auditors expert to assess actuary and assumptions made by actuary – as set out below

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2%	1.95% -2.05%	
Pension increase rate	2.8%	2.8% - 2.85%	
Salary growth	3.8%	3.8% - 3.85%	
Life expectancy – Males currently aged 45 / 65	23.4/21.6	Confirmed consistent	
Life expectancy – Females currently aged 45 / 65	25.8/23.9	Confirmed consistent	

- Sought explanations directly from the actuary for queries arising from review of the 2020/21 valuation and underlying assumptions.
- Reviewed the completeness and accuracy of the underlying information used to determine the estimate
- Reviewed the reasonableness of the Council's share of LGPS pension assets.
- Assessed the adequacy of disclosure of estimate in the financial statements

We have requested assurances from the auditor of West Midlands Pension Fund on the accuracy of membership data, contributions, benefits and investment values as held by the Pension Fund. **We are yet to receive these assurances as at the date of issue of this report.**

Assessment: Light purple

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £8.8m (2019/20 - £7.7m)	The Council are responsible for repaying a proportion of successful rateable value appeals. Management uses an external valuer, Wilks Head and Eve, to calculate the level of provision required. Wilks Head and Eve's calculation is based upon the latest information about existing appeals, future appeals and the likely loss based on previous success rates.	We consider that management's estimate is reasonable, based on • An assessment of competence, independency and objectivity of management's expert • Appropriateness of the underlying information used to determine the estimate • Reasonableness of the increase in the estimate • Adequacy of disclosure of the estimate in the financial statements.	Light purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
COVID Grants Income Recognition and Presentation- £157m	Walsall Council received significant levels of covid grant funding in 2020/21. This has been presented in the financial statements within a number of categories: • Specific grants credited to services - £25.7m • General grants credited to taxation and non specific grant revenue - £51.5m • Grants distributed on behalf of central government – not included in the Council's income as the Council was acting as agent - £63.4m The Council assessed the appropriate accounting treatment and categorisation for each grant based on a review of the underlying grant conditions and an assessment of whether the Council had the discretion to determine who was eligible to receive the grant, the purpose of the grants use or the amounts to be provided. Where the Council's judgement was that it did have this discretion it has accounted for the grants in its financial statements' where it judged that it did not have this discretion it accounted for the grants on an agency basis. The application of this judgement has been disclosed in the financial statements as a critical judgement in applying accounting policies.	We undertook review of a sample of all grants received by the Council in 2020/21. and reviewed: The basis of the judgement made as to whether the grant was accounted for in the Council's financial statements, or on an agency basis. • Completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income • Impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. • Adequacy of disclosure of judgement in the financial statements. Our audit work did not identify any issues in respect of recognition and presentation of grant income. During the course of our audit, Council finance staff identified two errors in the accounting for grant income Overstatement of both grant income and other service expenditure by £1,483k – no net impact on CIES Overstatement of figure for grants distributed on behalf of central government - £15.1m – disclosure issue only. The financial statements have been adjusted to correct these errors. Although these adjustments were identified by management rather than directly by the audit, for completeness we have included it in the details of adjustments to the draft financial statements set out at appendix B.	Light purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £8.1m (2019/20 - £12.8m)	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. During 2020/21 the Council changed the basis of calculation of the MRP from a straight line basis to an annuity basis as in the Council's view this better reflects the time cost of money going forwards for capital investments made by the council. The Council also amended the calculation to include a set aside for the Saddlers Centre, which had not previously been included in the MRP calculation. The impact of these changes is a reduced MRP charge but an increase in the total MRP to be charged over the full 41 years covered by the MRP policy. This change was approved by full Council at their meeting on 25 February 2021. The year end MRP charge was £8.1m, compared to £12.8m in 2019/20.	We reviewed whether: Changes to the policy on MRP had been appropriately discussed and agreed with the s151 officer and by the Council The MRP had been calculated in line with the revised policy whether the Council's policy on MRP complies with statutory guidance. the decrease in the MRP charge compared to 2019/20 was reasonable in the light of the change to the policy. Due to increased attention to the level of MRP charged by local authorities nationally we are currently undertaking benchmarking of the level of provision made. Initial analysis of the results of this benchmarking do not highlight a potential issue for Walsall Council, we will share full details of the results of the benchmarking exercise once it is available. Based on the above assessment we consider that management's estimate is reasonable.	Light purple

Assessment

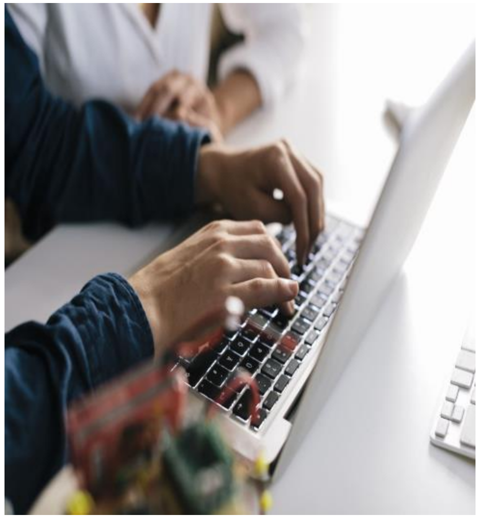
- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to for the Council's bank, investment and loan balances at 31 March 2021. This permission was granted, the requests were sent and received with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided.

2. Financial Statements - other communication requirements

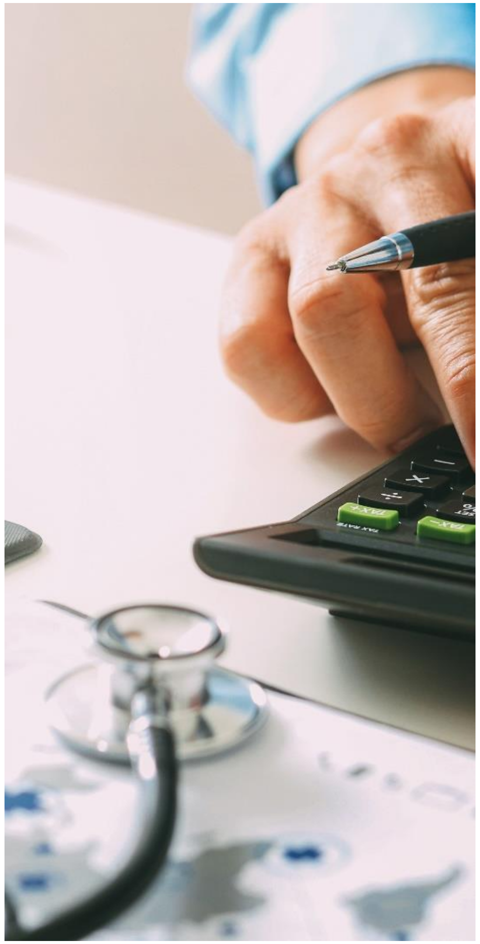
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements, including the Annual Governance Statement and Narrative Report , is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. The 2020/21 WGA Data Collection Tool is not yet available and is not expected to be so until at least December 2021. As such we have not yet undertaken work on the Council's 2020/21 WGA submission.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Walsall Council in the audit report, as detailed in Appendix D, due to incomplete VFM work and work on the 2020/21 WGA submission not yet having been undertaken..

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix D to this report. We expect to issue our Auditor's Annual Report by 31 October 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risks set out in the table below. Our work on these risks is underway and an update is set out below.

Risk of significant weakness	Work performed to date
Financial sustainability – delivery of the PROUD programme, savings and financial plans.	We have noted that the delivery of planned PROUD savings has slipped in both 2019/20 and 2020/21: • 2019/20 PROUD transformational saving target - £5m – deferred to 2020/21 • 2020/21 PROUD transformational savings target - £8m – deferred to 2021/22. As a result of this slippage the savings target for 2021/22 amounted to £28.9m. As at the end of August 2021, reporting to Corporate Management Team analysed delivery of these required 2021/22 savings as: - already delivered or on track for 2021/22 - £19.2m - some management action required to ensure delivery - £2.9m - at high risk of not being delivered - £6.8m. This suggests that the Council has made significant progress on the delivery of PROUD savings in 2021/22. At the time of issue of this report we are working to finalise our assessment in this risk area and will provide a further update to the Audit Committee.
Improving Economy, Efficiency and Effectiveness – working in partnership to delivery strategic priorities.	Work in this area is ongoing. However, no significant weaknesses have been identified based on the work undertaken to date. At the time of issue of this report we are working to finalise our assessment in this risk area and will provide a further update to the Audit Committee.

5. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

5. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £174,997 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Medium	We noted that the Council's fixed asset register shows fully depreciated assets with an original cost of £27.9m, mostly equipment assets. Finance staff were unable to provide assurances that these assets were still held and in use by the Council, but informed us that a review of these assets was due to be undertaken in 2021/22.	The Council should undertake a review of fully depreciated assets on the Fixed Asset Register to establish whether assets are still in use and a revision to estimated useful lives is required, or assets are no longer in use and so should be written off. **Management response** There are currently plans to undertake a review of all fully depreciated assets currently held on the asset register in the third quarter of 2021/22. Where the council is able to identify that the assets still exists then a determination as to whether a revision of the useful economic life of the asset is required will be carried out in line with IAS16. Where the asset can no longer be identified as being owned by the council then it will be derecognised within the asset register and general ledger. The review will be led by the Senior Accountancy Officer – Financial Reporting and it is anticipated that the review will be completed by 23 December 2021.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Incorrect grossing up of grant revenue and expenditure (identified by management)	Grant income - £1,483 dr Other service expenditure - £1,483 cr	0	0
Valuation of schools (identified by audit)	0	Property, plant and equipment - £1,101 cr Unusable reserves - £1,101 dr	0
Overall impact	0	0	0

B. Audit Adjustments

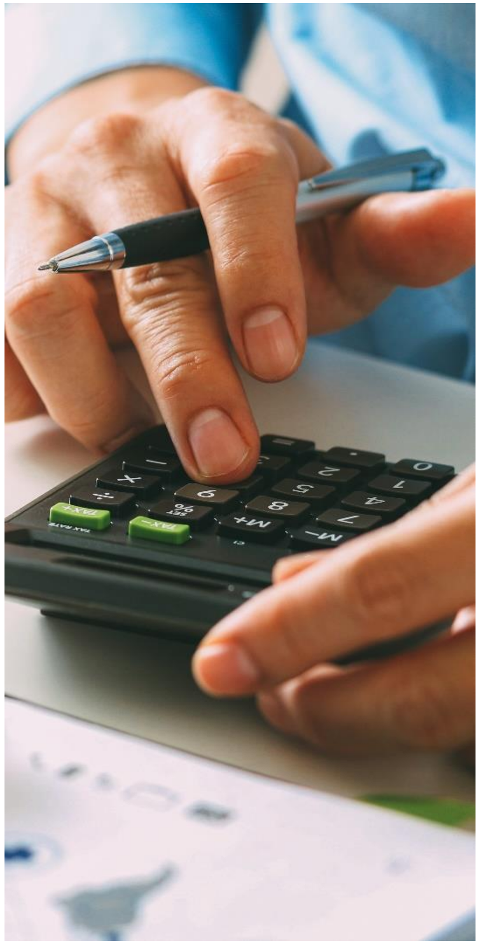
We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Amendment agreed	Adjusted?
COVID grants distributed on behalf of central government **(identified by management)**	Reduction of figure by £15.1m – disclosure only, no impact on the Council's CIES or SoFP.	✓
CIES	Additional disclosure to explain use of "Central" classification	✓
Accounting policies – critical judgements	Disclosure on the judgement made on whether properties generating rentals are classed as operational properties or investment properties	✓
Note 11 – exit packages –	Re-banding of 1 employee (from £60-80k to £100- £150k)	✓
Note 17 – grant income	Figures amended to ensure consistency with other notes	✓
Note 29 – financial instruments	Figures amended to ensure consistency with other notes and with prior year accounts	✓

B. Audit Adjustments



Impact of unadjusted misstatements

None identified

Impact of prior year unadjusted misstatements

None identified.

C. Fees

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

The fees reconcile to the financial statements.

Audit fees	Proposed fee	Final fee
Council Audit	£174,997	TBA
Total audit fees (excluding VAT)	£174,997	TBA

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Housing Subsidy grant claim	£12,500	TBC
Total non-audit fees (excluding VAT)	**£12,500**	**TBC**

D. Audit letter in respect of delayed VFM work

Commercial in confidence

Grant Thornton

Our ref:
Your ref:

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Chair of Audit Committee
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21 September 2021

Dear Andy

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 October 2021.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

JD Roberts

Jon Roberts

Partner

Grant Thornton

grantthornton.co.uk