

Audit Committee – 14 January 2019

Informing the External Audit risk assessment

1. Summary of report

1.1 Audit arrangements require Grant Thornton (our external auditors) to formally update their understanding of management's processes and arrangements annually. As part of their work Grant Thornton are required to obtain an understanding of these including in relation to:

- Fraud, including identifying and responding to the risks of fraud,
- Impact of laws and regulations
- Going concern considerations
- Accounting estimates
- Related party considerations

1.2 Grant Thornton have formally requested responses from the council to a number of questions covering the areas set out above, which are attached as Appendix 1.

2. Recommendations:

2.1 Audit Committee is requested to consider and endorse the responses to the series of questions set out in Appendix 1.

3. Governance

3.1 Each year the council's external auditors, under Accounting Standards, are required, as part of their risk assessment procedures, to obtain an understanding of management processes and the Audit Committee's oversight of the council's governance arrangements. Our auditors have produced a series of questions covering the key issues. Management have provided responses to these as set out in this report.

4. Resource and legal considerations

4.1 The report sets out and responds to a number of questions in relation to management arrangements in respect of laws and regulations and the Audit Committee's oversight of these arrangements.

5. Performance and risk management issues

5.1 Performance and risk management is embedded in the council's processes. Management arrangements in respect of fraud and the going concern concept are set out in the report.

6. Equality implications

6.1 None directly associated with this report.

7. Consultation

7.1 Management responses have been drafted from discussions with the Chief Finance Officer, Head of Finance and the Monitoring Officer.

8. Background Papers

8.1 Various working papers.

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3 January 2019

Informing the audit risk assessment for Walsall Metropolitan Borough Council

Year ended

31 March 2019

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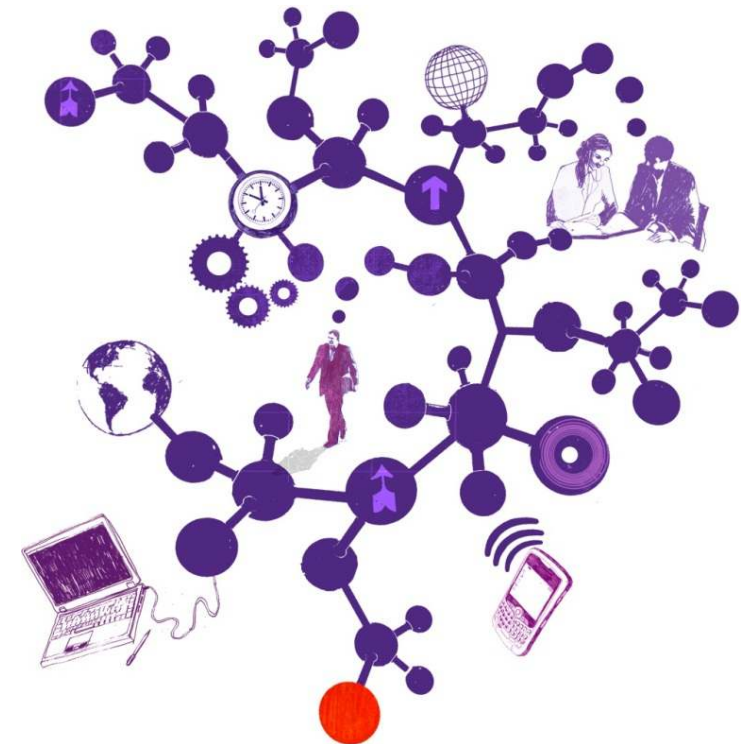
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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 external auditors and the Council's Audit 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 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 Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit 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 Committee and supports the Audit 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 Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- accounting estimates
- related parties

This report includes a series of questions on each of these areas and the response we have received from the Council'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.

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 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
- 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>Has the Council assessed the risk of material misstatement in the financial statements due to fraud or error? What are the results of this process?</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 some 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>Management processes include a review of results of the external auditors audit of the accounts each year and the ISA260 report to Audit Committee, and ensures follow up of key recommendations.</p> <p>Recommendations from internal and external audit reports are actioned promptly and management review progress in implementation. The Head of Finance also ensures that any follow up actions from the previous year's audit of the accounts have been fully implemented to ensure reduced risk of misstatement.</p>

Fraud risk assessment

Question	Management response
<p>Continued - Has the Council assessed the risk of material misstatement in the financial statements due to fraud or error? What are the results of this process?</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 review was undertaken in 2017 and reported to Audit Committee in April 2017, with revised Counter Fraud and Anti-Money Laundering Policies. The Counter fraud policy has recently been reviewed and updated and is out for consultation. Training is provided on key policies and procedures including the Code of Conduct, internal controls, risk, etc and appropriate segregation of duties is maintained.</p> <p>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> <p>The result of the process for 2017/18, as per the assurance response provided to EY, that the risk of material misstatement was low. The assessment for 2018/19 remains in train.</p>

Fraud risk assessment

Question	Management response
<p>How is the Council satisfied that the overall control environment is robust. In particular, 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>Please also refer to above response. Additionally, the council undertakes an annual review of the effectiveness of its internal control environment and reports to Audit Committee via the Annual Governance Statement. As part of this process, the annual audit opinion of the Head of Internal Audit is included. The 2017/18 AGS concluded that the internal control environment was adequate and effective. Some control weaknesses were reported and acted upon. The council also gains assurance from External Audit through the findings of the annual audit of the statement of accounts each year, and the ISO260 report.</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). The council's processes are detailed in the counter fraud policy, containing the fraud and corruption response plan, which was comprehensively updated in 2017</p> <p>Fraud reporting responsibilities are also detailed in the confidential reporting policy (Whistle Blowing), which is supplemented by an on-line notification tool. A counter fraud review was undertaken and reported to Audit Committee in April 2017, and the Committee received and endorsed a refreshed counter fraud policy and anti money laundering policy. Where fraud or corruption is reported, there are robust mechanisms in place to address these. The Counter fraud policy has recently been reviewed and updated and is out for consultation.</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.</p>

Fraud risk assessment

Question	Management response
<p>Continued - How is the Council satisfied that the overall control environment is robust. In particular, what processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>The Code was updated in June 2015. 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 Internal Audit plan covers the main areas of internal control risk. The council's specific fraud risks have been identified in a fraud risk register, which maps key fraud risks to internal audit coverage. A comprehensive review of the fraud risk register is currently underway and the outcome will be presented to Audit Committee, along with any resulting actions.</p> <p>The council also has counter fraud resources within internal audit and the benefits service and makes use of NFI. The council also has access to specialist counter fraud knowledge and resource through Mazars specialist fraud team.</p> <p>Cases of suspected fraud are investigated thoroughly and actions reported to the CFO and to the Audit Committee. Internal Audit ensure that the CFO is advised of all matters in relation to fraud and that appropriate investigations are put in place.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>Please refer to above response.</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>

Fraud risk assessment (Continued)

Question	Management response
<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>The Audit Committee regularly scrutinises strategic risks and calls 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>What arrangements are in place to report fraud issues and risks to the Audit Committee?</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>
<p>How does the Council communicate and encourage ethical behaviour of its staff and contractors?</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 June 2015. 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>

Fraud risk assessment (Continued)

Question	Management response
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	<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 2019/20.</p> <p>A number of allegations were reported via the Internal Audit service and these were investigated. No significant issues have been identified.</p>
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2018?	A small number of allegations were reported and investigated. No issues were identified.
Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2018? If so how does the Audit Committee respond to these?	No.

Fraud risk assessment (Continued)

Question	Management response
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</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 in place appropriate segregation of duties which are 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 2017/18 advised that the Council's governance, risk management and internal control arrangements were generally adequate and effective. The Annual Effectiveness Review of the System of Internal Control and the Annual Governance Statement 2017/18 also reported formally and advised that the system of internal control was 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 is 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 is 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> <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>

Fraud risk assessment (Continued)

Question	Management response
<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>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. Managers are expected to deliver services within the approved budget wherever reasonably possible. 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. 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>

Laws 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
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	<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> <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 and consider governance issues.</p>
How does management gain assurance that all relevant laws and regulations have been complied with?	<p>Please refer to above response in relation to the corporate governance framework and roles of the MO.</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>

Impact of Laws and regulations

Question	Management response
How does management gain assurance that all relevant laws and regulations have been complied with?	<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, Procurement, HR and Legal Officers to ensure appropriate advice is given.- 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.

Impact of Laws and regulations (Continued)

Question	Management response
<p>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 annual 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.

Impact of Laws and regulations (Continued)

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2018, or earlier with an on-going impact on the 2018/19 financial statements?	Management are not aware of any instances.
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 – please also 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 insurance and liability related matters.</p> <p>Senior management are also required to complete an annual return to confirm any known or potential instances of litigation or claims.</p>
Is there any actual or potential litigation or claims that would affect the 2018/19 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.
Have there been any reports 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 the Authority's 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.

If the entity could not continue as a going concern, assets and liabilities would need to be recorded in the accounts on a different basis, reflecting their value on the winding up of the entity. Consequently, assets would be likely to be recorded at a much lower break-up value and medium- and long-term liabilities would become short-term liabilities.

The Council is not subject to the same future trading uncertainties as private sector entities. However, consideration of the key features of the going concern provides an indication of the Authority's financial resilience. It may indicate that some classes of assets or liabilities should not be valued on an on-going basis.

We discuss the going concern assumption with key Council officers and review the Council's financial and operating performance.

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

Going Concern Considerations

Question	Management response
<p>Does the Council have procedures in place to assess the Authority's 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>
<p>Is management aware of the existence of events or conditions that may cast doubt on the Authority'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>Are arrangements in place to report the going concern assessment to the Audit Committee?</p>	<p>Going concern is 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>

Going Concern Considerations (Continued)

Question	Management response
Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the Authority's Business Plan and the financial information provided to the Council throughout the year?	Yes
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	All known statutory or policy changes introduced through the CIPFA Code of Practice etc are assessed when forming the council's view on going concern and incorporated into the business plan and financial forecast (MTFO).
Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal audit regarding financial performance or significant weaknesses in systems of financial control).	No.
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	There are no adverse financial indicators.
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 Authority's objectives? If not, what action is being taken to obtain those skills?	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 is in the process of assessing and securing this additional capacity. This will include skills and knowledge transfer to ensure in house continuation of the programme.

Accounting estimates

Issue

Matters in relation to accounting estimates

Authorities need to 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 material estimates that the Council is using as part of its accounts preparation; these are detailed in Appendix A 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.

Accounting estimates considerations have been set out below and management has provided its response.

Question	Management response
Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	These arrangements have been assessed by management as being reasonable and appropriate for the council. This is confirmed within the council's Letter of Representation. These are reviewed as part of the audit of the accounts.
How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	Assurance is obtained from the Letter of Representation, which is signed off by the Chief Executive and approved by Audit Committee. Also the council's accounting policies are presented earlier in the year for Audit Committee to approve which outlines the basis on which some estimates will be made. Explanations are provided for any change in policy. These are reviewed as part of the audit of the accounts.

Related Parties

Issue

Matters in relation to Related Parties

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 Council(i.e. subsidiaries);
- associates and/or joint ventures;
- an entity that has an interest in the Council 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 Authority's 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.

Related party considerations have been set out below and management has provided its response.

Related Parties Considerations

Question	Management response
<p>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>

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 Land and Building valuations	Based on expert 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 Land and Building valuations	Based on expert professional judgement	No
Depreciation & 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

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?
Impairments	Annual internal review to determine any change in asset condition.	Consistent application	Yes for land and buildings	Based on expert 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?
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	Based on expert professional judgement	Potentially due to the introduction of IFRS 9
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

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



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