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Grant Thornton

The Audit Findings for City of Wolverhampton Council

Year ended 31 March 2019

23 July 2019

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of City of Wolverhampton Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 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 group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and Council's/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 Pension Fund Financial Statements), 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 site during June and July. Our findings are summarised on pages 4 to 22. We have identified 2 adjustments to the financial statements that have resulted in a £13.4m adjustment to the Council's Comprehensive Income and Expenditure Statement and a £15.6m adjustment to the Group's Comprehensive Income and Expenditure statement. This relates to additional pension liabilities following the McCloud Appeal judgement in July 2019. This has increased the pension liabilities of the Council and one of its subsidiary companies. All audit adjustments are detailed in Appendix C. We have identified a number of unadjusted errors. These include: • A potential understatement of PPE balances of £12.2m in assets as at 31 March 2019. • An understatement of pension liabilities by approximately £1.7m in relation to the GMP pension ruling • An understatement of borrowing in relation to PFI schemes of approximately £2.2m. • A potential overstatement of fees and charges of £2.1m due to the inclusion of internal recharges in the CIES. We are in the process of extending our testing to decrease the level of projected error. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following items listed on page 6 being resolved satisfactorily. 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. Our anticipated audit report opinion will be unmodified.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of City of Wolverhampton Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements with regard to its Medium Term Financial Resilience and Strategic Asset Management. We have no issues to report to you on this matters. Our work relating to the Civic Hall is ongoing. We will report this to a later committee. As such we have not concluded our work on the Council's Use of Resources. Our findings are summarised on pages 23 to 28.
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 do not expect to be able to certify the conclusion of the audit yet as we do not anticipate having completed our work on the Council's Whole of Government Accounts return. The deadline for this submission is 13 September 2019. Additionally, we are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. As the Pension Fund has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements.

Acknowledgements

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

Summary

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 have been discussed with management.

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 group and Council's business and is risk based, and in particular included:

- An evaluation of the group and Council's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. {eg From this evaluation we determined that an audit of Wolverhampton Homes Limited and specified audit procedures for City of Wolverhampton Housing Company Limited. The Wolverhampton Homes audit has been undertaken by a separate team of Grant Thornton auditors, and the pertinent transactions for City of Wolverhampton Housing Company have been audited by the Council's audit team; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 10 December 2019, except for a slight alteration to our group materiality thresholds, as reported to you in our progress report of 10 June 2019.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries listed overleaf being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Risk Committee meeting on 23 July 2019, as detailed in Appendix E.

Summary

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 calculations remain the same as reported in our audit plan, supplemented by the additional information provided in our June progress report. In our audit plan we reported that the materiality applied would be £16m for both the Council as a single entity as well as the group. This was amended slightly to ensure that the materiality applied to the group is larger. The group materiality was adjusted to £16.04m.

We detail in the table below our determination of materiality for City of Wolverhampton Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	16,040,000	16,000,000	We determined materiality for the audit of the Council's financial statements as a whole to be £16,000,000, which is approximately 1.9% of the Councils gross operating expenses. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.
Performance materiality	12,030,000	12,000,000	We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the financial statements. • Our consideration of performance materiality is based upon a number of factors: • We have not historically identified significant control deficiencies as a result of our audit work • We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment • There has not historically been a large number or significant misstatements arising as a result of the financial statements audits at the Council • Senior management and key reporting personnel in the finance function has remained stable from the prior year audit
Trivial matters	802,000	£800,000	We determined the threshold at which we will communicate misstatements to the Audit and Risk Committee to be £800,000, which is 5% of materiality.
Materiality for specific transactions, balances or disclosures	Remuneration of senior officers: £35k		In accordance with ISA320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts.

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Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification to the proposed audit opinion and VFM conclusion, subject to the outstanding matters detailed below.

- Completion of our work on pensions, namely receipt of assurances from the auditor of the West Midlands Pension Fund
- Review of the Expenditure and Funding Analysis
- Completion of our work on senior officers' remuneration and employees earning in excess of £50k
- Receipt and consideration of remaining samples in respect of our work on operating expenditure, grants, fees and charges, asset additions and disposals, debtors and creditors
- Review of the Council's bad debt provision
- Receipt and consideration of samples for the extended testing we have performed on fees and charges to address the errors identified
- Comparison of the Waste PFI disclosures output from the Council's model to those from the Grant Thornton model
- Review of the group consolidation subsequent to the IAS19 pension adjustments being made
- Completion of our work on financial instruments
- Receipt and subsequent review of the Council's revised Movement in Reserves Statement
- Consideration of the work of the Council's valuers and sample testing of properties revalued to supporting information
- Final manager and engagement lead review of all of the above once completed

- obtaining and reviewing the updated financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**The revenue cycle includes fraudulent transactions (rebutted)** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined as part of our planning procedures that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including City of Wolverhampton Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for City of Wolverhampton Council. In terms of this risk and how it relates to the Group we have also determined that the risk of fraud arising from revenue recognition in the Group can be rebutted because the majority of income of Wolverhampton Homes Limited (approximately 97%) arises from the Council and is therefore eliminated on consolidation. The remainder of the income stream of Wolverhampton Homes Limited is sourced from third parties but given the subsidiary's close relationship with the Council, we believe the above bullet points also apply from a Group perspective.	**Auditor commentary** We have not altered our assessment as reported in the audit plan and therefore have no issues to report n this regard.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
2	**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 Group 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 one of the most significant assessed risks of material misstatement for both the Group and Authority.	**Auditor commentary** We have: • gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtained a full listing of journal entries, identify and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions. We identified from our review of the journal control environment that both the Chief Accountant and the Director of Finance have the ability to post journals. In our opinion these posting rights are incompatible with the duties of these posts. This does not constitute best practice and as such we engineered our testing to obtain an appropriate level of assurance that this weakness did not give rise to a possible material misstatement. From the testing performed to date we are content that journals posted are appropriate, eligible and valid, and can be agreed to supporting evidence. For more in-depth consideration of the Council's judgements and estimates please refer to pages 13 to 17.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
❸ **Valuation of land and buildings** The Authority revalues all assets over £1m on an annual basis with the remainder being revalued on a cyclical basis or as considered necessary in order to ensure that all assets are revalued at least every five years. This is in line with the Code requirements. This is to ensure that carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at the balance sheet date. We therefore identified the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have: • documented and 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 expert • written to the valuer, with follow up discussions as necessary, to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding **Conclusions** We cannot conclude upon this area as at the time of writing as: • We are in the process of evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value, though based on the work done to date we have identified a potential understatement of £12.2m. • We are testing on a sample basis, revaluations made during the year to ensure they are consistent with the valuer's report and have been input correctly into the Authority's asset register.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
4 **Valuation of the pension fund net liability** The Authority'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 and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We note that from a group point of view this risk is only applicable to the City of Wolverhampton Council and Wolverhampton Homes Limited, as the City of Wolverhampton Housing Company Limited does not have any employees and therefore carries no such liability.	**Auditor commentary** We have: • documented 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; and, • undertaken 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. **Findings** We have nothing to report in respect of the planned work above. However, during the course of the audit, the Council has sought a revised report from the actuary in order to account for the impact of the recent "McCloud" judgement. In January 2017, the Employment Tribunal ruled that transitional provisions in the New Judicial Pension Scheme (NJPS) were unlawfully age discriminatory because they were not objectively justified. The Tribunal found that a group of claimant judges had been subject to age discrimination when they were transferred to the NJPS established in April 2015 while under transitional provisions older colleagues were able to remain in the existing Judicial Pension Scheme (JPS). The JPS is a final salary scheme whereas the NJPS is a career average revalued earnings scheme. Firefighters (the Sargeant case) had brought a similar age discrimination case and the Employment Tribunal ruled that similar transitional provisions were a proportionate means of achieving a legitimate aim and so did not give rise to unlawful age discrimination. Firefighters appealed the ruling and in December 2018 the Court of Appeal looked at both the judges and firefighters' cases and ruled that transfers to the new schemes established in 2015 were discriminatory on the basis of age. This case is referred to as McCloud versus Sergeant. Where the transitional provisions are unlawful then those members who are found to have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. The Government applied to the Supreme Court for permission to appeal and on 27 June 2019 it was announced this was denied. This has led the Council to conclude that it is now probable that members of the LGPS (for whom an underpin was introduced when the scheme changed on 1 April 2014) would also be impacted by the judgment and it therefore requested an updated report from its actuary to take into account the above decision. This was provided in July and the accounts updated accordingly. The net pension liability on the balance sheet has therefore moved from £568m to £581m. We are satisfied that these adjustments have been reflected in the revised financial statements. **Conclusion** We have requested but not yet obtained 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. Subject to satisfactory receipt of this we are not anticipating an impact upon our audit opinion but are unable to conclude on this risk as at the time of writing.

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Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Wolverhampton Homes Limited	Grant Thornton UK LLP (separate audit team to group audit team)	• We have reviewed the workpapers of the component auditor to identify whether further procedures are required to gain the necessary assurance. • We are satisfied with the level of work performed. • The accounts are likely to be signed off by the Wolverhampton Homes Ltd (WHL) Board in September and an unmodified audit opinion is proposed	• This company participates in the local government pension scheme, and as such has been affected by the McCloud judgement as referred to on the previous page. • The WHL accounts as well as the Group accounts have therefore been updated in this respect. For the subsidiary the scheme liabilities have increased from £198,451m to £200,512m leading to an increase in the net liability of £2,061m from £37,817m to £39,878m.
City of Wolverhampton Housing Company Limited (trading as WV Living)	Grant Thornton UK LLP (separate audit team to group audit team – note that while the two teams are separate, the relevant audit procedures in respect of the group audit were undertaken by the group audit team, as the audit of the company is not taking place until later in the year)	We have conducted substantive testing in the following areas, where we deemed there to be an impact in relation to the group accounts: • Stock ("work in progress" built homes) • Cash • Creditors • Reserves • Operating Expenditure • Turnover	• From the work conducted there are no findings to bring to your attention, relevant to the group audit

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Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals	The Council are responsible for repaying a proportion of successful rateable value appeals. Management use historic data relating to appeal success rates and the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) to calculate the level of provision required.	Our work in this area is ongoing as at the time of writing. We are in the process of: • Considering the approach taken by the Council to determine the provision • Reviewing the disclosure of the estimate in the financial statements	TBC
Land and Buildings – Council Dwellings - £751.4m	The Council owns 20,009 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged the Valuation Office Agency (VOA) to complete the valuation of these properties. The year end valuation of Council Housing was £751.4m, a net increase of £13.8m from 2017/18 (£737.6m).	We have: • Assessed the objectiveness and competency of management's expert • Determined the accuracy of the underlying information used to determine the estimate • Compared the consistency of estimate against a report from Gerald Eve setting out indices movements in the year • Tested the value of the properties by comparing a sample to publicly available market information to enable us to assess the reasonableness of the increase in the estimate • Reviewed the adequacy of disclosure of estimate in the financial statements While some of this work is ongoing, as at the time of writing we have identified nothing to date to bring to your attention.	TBC
Investment Property - £34.3m	Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date.	Investment Properties are valued by the Council as at 1 April 2018 rather than the financial statement date. We have applied indices to the valuation performed as at 1 April 2018 to assess whether the Investment Property valuations in the financial statements are correct. The indices indicate a range of movement between 1 April 2018 and 31 March 2019 from -3% to 1.5%. The valuation difference is therefore in the region of -£1m to £0.5m misstated. We note that one asset does not appear to have been valued since 2015. The max impact is an undervaluation of circa 20% or £180k. These potential differences are not material and we are therefore not reporting them as unadjusted misstatement but we recommend that the Council value its investment properties at 31 March.	●

Assessment

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

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Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £454.7m	Other land and buildings comprises 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 remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its own internal valuer to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. The valuation of properties valued by the valuer has resulted in a net decrease of £50m.	We have: • Assessed the objectiveness and competency of management's expert • Determined the accuracy of the underlying information used to determine the estimate • Compared the consistency of estimate against a report from Gerald Eve setting out indices movements in the year • tested the value of the properties by comparing a sample to enable us to assess the reasonableness of the increase in the estimate • Reviewed the adequacy of disclosure of estimate in the financial statements We have applied indices uplifts to the valuations provided by the valuers as at 1 April 2018 to determine if there is a material misstatement as at 31 March 2019. The valuation of assets is also impacted by the rolling 5 year programme, as it means there is always a quantum of assets which are not valued at all in any one year. (For 2018/19 £50.918m were not subject to a formal valuation). This is permitted by the Code but it requires additional work to be undertaken in respect of those assets to determine that the value they are rolled forward at, continues to be appropriate. We are unable to conclude our work on this area as work is ongoing as at the time of writing. Using this methodology we have identified a potential understatement of £12.2m, which we are satisfied is not a material difference. However, we have raised a recommendation for the Council to assess its approach to its valuations to ensure it is obtaining assurance that such variances are not material.	●

Assessment

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

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Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £568m – (Scheme Liabilities £1,858m, Scheme Assets £1,290m), revised to £581m (Scheme Liabilities £1,872m, Scheme Assets £1,290m)	The Authority's total net pension liability at 31 March 2019 per the draft accounts was £568m (PY £621m). The Authority uses Barnett Waddingham LLP to provide actuarial valuations of the Authority's assets and liabilities derived from the Local Government Pension Scheme in which it participates, (which is the West Midlands Pension Fund, administered by the Council itself). A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. Since the draft accounts were produced an updated actuarial report incorporating asset valuations as at March 2019 has been received. The financial statements have been updated in this regard. This led to an increase of £13.4m in the net pension liability: the liability in the updated financial statements is now £581.4m.	PwC were engaged by the Audit Commission (and subsequently the NAO) as consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS). They produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2019. We use this report to inform our assessment of the valuation of the pension fund liability in the Authority's accounts. We have compared the assumptions used by the Authority's actuary against industry benchmarks. Based on the work performed we are able to conclude that management's assumptions overall are reasonable.	**Green**

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4%-2.5%	(G)
Pension increase rate	2.4%	2.4% to 2.5%	(G)
Salary growth	3.9%	3.10%-4.35%	(G)
Life expectancy – Males currently aged 45 / 65	20.9 years	20.6-23.4 years	(Y)
Life expectancy – Females currently aged 45 / 65	23.2 years	23.2-24.8 years	(Y)

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Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability - continued	continued	The High Court has ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMP) have had on members benefits. The Government announced an "interim solution" for members in public service schemes who reach State Pension Age (SPA) between 6 April 2016 and April 2021. We have reviewed the approach of the scheme's actuary, Barnett Waddingham (BW), in estimating the impact of these on the Council's pension liability. BW have not made allowance for pre 2021 retirements in their estimate. Utilising the 2018/19 PwC report and our own actuary we believe this would mean that liabilities are understated by approximately 0.3% (£1.7m). This is within our acceptable range and we are therefore satisfied that the Council's estimation methodology is reasonable. We have also reviewed the: • Completeness and accuracy of the underlying information used to determine the estimate • Reasonableness of the Authority's share of LGPS pension assets. • Reasonableness of increase/decrease in estimate • Adequacy of disclosure of estimate in the financial statements We have no findings to being to your attention in this regard.	

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Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 2/3 investments	The Council have financial assets relating to shares in Birmingham Airport Holdings. These investments are not traded on an open exchange/market and the valuation of the investment is subjective as it is not based on observable data. They have therefore been assigned as level 3 in the fair value hierarchy. Management have determined the fair value through use of an expert. We have appointed our own internal experts to review the valuation and are satisfied that the methodology applied is appropriate. The fair values of loan held by the Council have been assessed by calculating the net present value of cash flows that are expected to take place over the remaining life of the loan. The assessment of loans uses Level 2 inputs, ie inputs other than quoted prices that are observable for the financial instrument. We consider this to be an appropriate designated hierarchy.	We have: • Considered the reasonableness of increase/decrease in estimate • Reviewed the adequacy of disclosure of estimate in the financial statements	●
Other accruals and estimates	The Council continues to apply estimates and judgements in a number of areas, such as: • accruals of income and expenditure; • recognition of school assets; and • the preparation of group accounts.	• The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting. • Disclosure of the estimates in the financial statements is considered adequate. • As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balances within these have been discussed with management in detail. • We have found no material misstatements in the financial statements relating to these balances.	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process and key assumptions to be reasonable

Significant findings - Going concern

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).

Going concern commentary

Management's assessment process	Auditor commentary
Preparation of income and expenditure budgets for the year ended 31 March 2019	Going Concern is defined as “the concept that the local authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.’ The Authority’s financial statements are prepared on going concern basis on the grounds that budgets are in place and are being measured and managed to ensure that liabilities can be met as and when they fall due. Audit procedures undertaken have not found any indication of the existence of going concern events or conditions which may cast significant doubt on the Authority's ability to continue as a going concern. The Council budget more than a year in advance: at the Council meeting in March the 2019/20 budget was agreed, which is a balanced budget without the use of reserves. The report accompanying the budget notes that work will start on developing budget reductions and income generation proposals for 2020/2021 onwards in line with the Five Year Financial Strategy, and progress will be reported to Cabinet in imminently
Work performed	**Auditor commentary** We have reviewed the budgetary processes in place and would note the following: • We are satisfied from our review of the Council’s reserves balance that it has sufficiency of usable reserves (i.e. general fund and earmarked reserves) to bolster its finances should its savings plans not be delivered, but clearly reserves can only be used once. • The Council is rightly concerned that there are a number of unknowns in its funding, especially with regard to the long-awaited social care green paper, which has been delayed for approximately 18 – 24 months, and is critical, given the ever-increasing demand in adult social care. However, in and of itself, this is not considered to cast significant doubt on the Council’s ability to continue as a going concern. We therefore agree with the Council’s conclusion that the going concern assumption is appropriate.

PFI scheme disclosures

The Council has 4 PFI schemes covering a leisure centre, schools and a waste incinerator which are disclosed in the financial statements. The operators financial close and accounting models for PFI schemes are highly complex and produce accounting estimates for disclosures within the accounts. The unitary charge levied by the PFI supplier contains various elements including cost of services, additions of new equipment, energy and contract inflation which needs to be apportioned by use in the financial model. The application of the model in apportioning these costs is reported in the Council's accounts.

The accounting model requires judgements to be made in a number of areas by the Council. We have assessed the inputs from the Operator's models to produce an audit estimate for each disclosure within the financial statements. We then compare this with the Council's figures for its accounting estimate. Where the difference between the Council's and the audit accounting estimate falls within our trivial range (£0 to £800k) we are not required to report this. Where the Council's accounting estimate falls outside of this range this is reported below.

Issue	Commentary	Recommendations
Disclosures	**Note 10D – PFI liability** Liability classifications – • Highfield and Penn Fields schools – the Council's liability is £1.488m lower than the audit estimate. £1.032m of the liability should be classified as a current liability rather than a non-current liability, as it falls due within 12 months of the balance sheet date. • Waste disposal facility – no issues to report on the overall liability: however £1.465m should be classified as a current liability rather than a non-current liability as it falls due within 12 months from the balance sheet date • St Matthias and Heath Park – the Council's liability is £1.737m lower than the audit estimate. £1.326m should be classified as a current liability rather than a non-current liability, as it falls due within 12 months from the balance sheet date. • Bentley Bridge - no issues to report on the overall liability: however £303k should be classified as a current liability rather than a non-current liability, as it falls due within 12 months from the balance sheet date. This is trivial in and of itself, but reported, as it forms part of a bigger balance which is set out as an unadjusted misstatement at Appendix C. We note that in all instances above the balance sheet is showing the correct classification. The differences identified are in the disclosure at Note 10D only. The disclosure is being updated accordingly. **Comprehensive income and expenditure account** Entries within the statement of comprehensive income & expenditure account in relation to service charges, interest and the impact of RPI fall within our range of estimates, therefore no issues identified. **Disclosures** The Code requires a number of disclosures in relation to the future commitments of the PFI schemes. **Future payments for services** For Bentley Bridge the total future service costs disclosed are different from the audit estimate in the range of £0.700m to £0.854m lower on the individual periods disclosed within the note. In total for Bentley Bridge the disclosure is £2.503m lower than the audit estimate.	The differences identified against our range of estimates for the PFI scheme have been discussed with the Council. Differences in each line of the disclosures have been detailed within the Commentary box. The total future payments disclosed for all PFI schemes are in line with the audit estimates. The differences are due to the way in which the indexation is allocated within the accounting models The Council have determined not to amend the financial statements in this regard. We have accepted the Council's estimate, as the degree of variation is not material, given the nature of the schemes and the basis of the estimate.

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PFI scheme disclosures continued

Issue	Commentary	Recommendations
Disclosures	**Future interest costs** St Matthias and Heath Park - In terms of each period for interest, figures are different from the audit estimate in the range of £3.200m higher to £1.100m lower on the individual periods disclosed within the note. In total the disclosure is £2.700m higher than the audit estimate. For Bentley Bridge the total interest costs disclosed are different from the audit estimate in the range of £0.550m to £2.209m higher on the individual periods disclosed within the note. In total for Bentley Bridge the disclosure is £6.438m higher than the audit estimate. For Highfields and Penn the total interest costs disclosed are different from the audit estimate in the range of £0.100m lower to £1.800m higher on the individual periods disclosed within the note. In total for Highfields and Penn the disclosure is £2.193m higher than the audit estimate. **Repayment of liability** St Matthias and Heath Park - The amounts disclosed are different from the audit estimate in the range of £0.800m higher to £3.200m lower on the individual periods disclosed within the note. The total liability disclosed is £2.527m lower than the audit estimate. **Conclusion** In total, we have identified when comparing the Council's model with the Grant Thornton model, that there is a potential understatement of liability of £2.236m. This has been taken to Appendix C as an unadjusted misstatement.	As per previous page.

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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
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Risk Committee in private session. We have not been made aware of any other incidents in the period and are aware that the Council is following up the incident previously reported. We are satisfied that there is no material impact on the financial statements.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**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. • We did review the Council's arrangements on two matters. We have reported these matters separately to the Council. We are satisfied that they to not represent breaches in the law or regulations. Rather they represent non compliance with the Council's procedures and/or areas where the Council's governance can be strengthened.
4	**Written representations**	• A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is appended.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to those organisations with which it banks, invests and borrows. permission was granted and the requests were sent. All of these requests were returned with positive confirmation..
6	**Disclosures**	• See Appendix C for the most significant amendments made to disclosures. In addition these a small number of amendments were made to improve clarity for the reader.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided.

Other responsibilities under the Code

	Issue	Commentary
1	**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, Narrative Report and Pension Fund Financial Statements), 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. We plan to issue an unmodified opinion in this respect – refer to Appendix E.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**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. As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • Note that work is not yet completed as the submission deadline is 13 September 2019.
4	**Certification of the closure of the audit**	We are unable to certify the closure of the 2018/19 audit of City of Wolverhampton Council in the audit opinion, as detailed in Appendix E.

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Value for Money

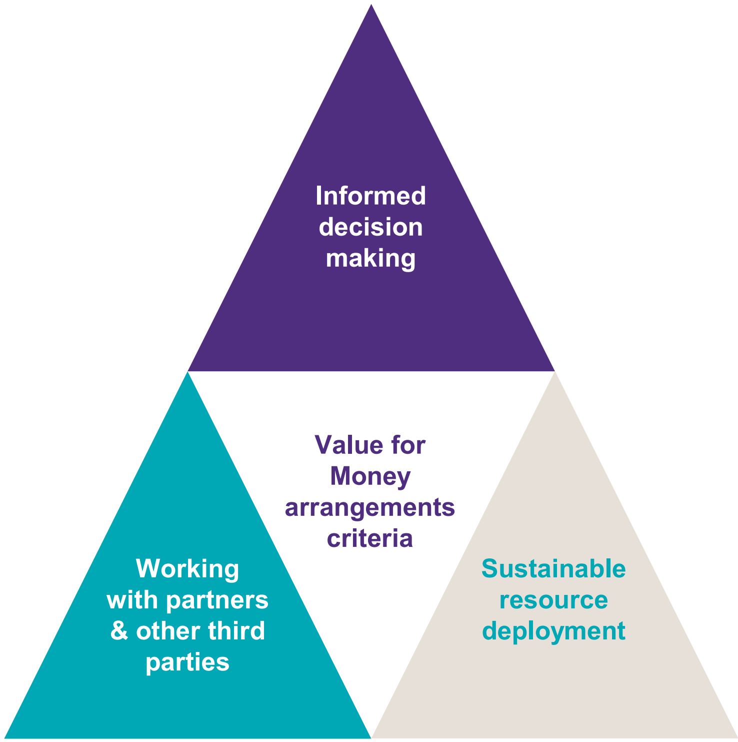
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in November 2018 and identified three significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 10 December 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements: our main considerations were the progress throughout the 2018/19 financial year of the Council in relation to its arrangements to ensure financial resilience as well as strategic asset management and the refurbishment of the Civic Halls.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 25 to 28.

Overall conclusion

We have completed our risk based review of the Council’s value for money arrangements with regard to its Medium Term Financial Resilience and Strategic Asset Management. We have no issues to report to you on this matters. Our work relating to the Civic Hall is ongoing. We will report this to a later committee. As such we have not concluded our work on the Council’s Use of Resources.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Medium Term Financial Resilience

The Authority has historically managed its finances well, achieving financial targets. The Budget and Medium Term Financial Strategy considered by Cabinet on 20 February 2018 and approved by Full Council on 7 March 2018 identified that the budget for 2018-19 was in balance without the use of general reserves. However, in common with other authorities, pressures on demand led services, particularly in Children's Social Care, continue to put impact finances and the Authority is forecasting an overspend against the general fund of £1.7m for 2018/19.

The scale and pace of change for local government will affect future projections and it is important the Authority is on track to identify and produce savings required to deliver balanced budgets in the future. The Authority is faced with finding further budget reduction and income generation proposals totalling £19.5 million over the period to 2019/20. There is therefore still a gap to address in terms of future funding and savings solutions.

We have reviewed the Council's Medium Term Financial Strategy and financial monitoring reports and assessed the assumptions used.

Findings

- In the most recent Revenue Budget Monitoring report available as at the time of our initial risk assessment, which was presented to Cabinet Resources Panel in November 2018, it was noted that the overall projected outturn for the General Fund for 2018/19 was an overspend of approximately £1.7m (an improvement on the position as at July 2018 which projected an overspend of £2.7m). In order to address the remaining forecast overspend, directorates were issued with in-year budget reduction stretch targets. In addition, Strategic Directors undertook an in-depth review and challenge of all service budgets, both revenue and capital, to identify both in year and future budget reduction proposals.
- The position for quarter 3 reported an improved underspend in the region of £95k, although this planned to involve the use of reserves to offset redundancy costs, including the cost of pension strain, of around £3 million to £4 million.
- The actual outturn was a net underspend of £265,000 (-0.12%) was achieved against the General Fund net budget requirement of £229.1 million.

The timeline in the previous paragraphs demonstrates the resilience that the Council has in terms of being able to identify and action savings and budget reduction proposals in year.

However, whilst the positive General Fund outturn position during 2018-2019, and the resulting adjustments to reserves, will help to support the Council's short term financial position, it does not address the challenging financial position that the Council finds itself in over the medium term; namely identifying further projected budget reductions estimated at £27.3 million in 2020-2021, rising to £40-50 million over the medium term to 2023-2024. Cabinet was presented with a report in July 2019 detailing the progress towards identifying budget reduction and income generation proposals to address the financial challenge. This is considered further in the next section.

Consideration of 2019/20 budget

We have discussed your financial plans with key officers and reviewed the Final Budget Report for 2019/20 and the Council's Financial Strategy for beyond 2019/20 (which were presented to Council in March 2019) . We are satisfied that the Council has firm plans in place for 2019/20. The budget for 2019/20 is in balance without the use of general reserves and the section 151 Officer has indicated that the 2019/20 budget estimates are robust.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Medium Term Financial Resilience Findings (continued)

We have reviewed the assumptions applied and compared then to prior year: we note that the significant changes between years are council tax which has increased from 1.99% to 2.99%. However we acknowledged as part of our review last year 2019-20 MTFS that consideration was being given as part of the 2019-20 MTFS to increasing Council Tax by a further 1% in 2019-2020 to 2.99% as part of the 2019-2020 budget consultation process, so this is not unexpected.

Consideration of future savings plans

A further £27.3 million needs to be identified for 2020-21 and £40 to £50 million over the medium term in order to address the projected future budget deficits.

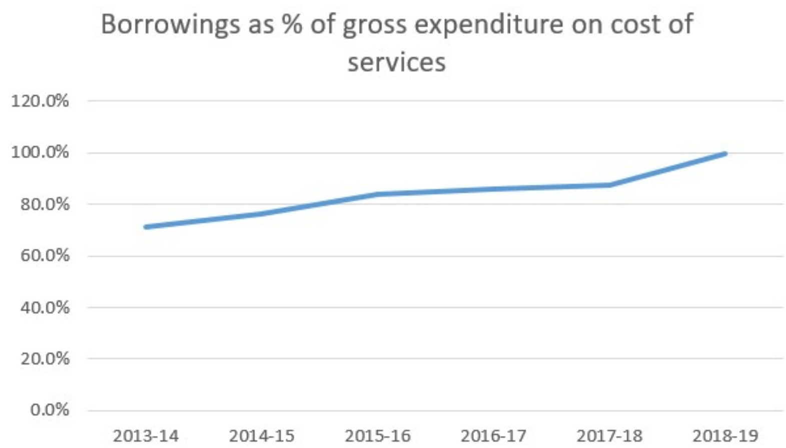
The Council are looking at developing savings schemes to fill gaps in future years. There are initial plans in place at a project level, which have dedicated assigned officers accountable for each saving. Even after taking these savings into account, there is still a gap of approximately £4m to fill but given that this is as at July 2019 and equates to 1.5% of a net expenditure budget of £258.6m in relation of the 2020/21 financial year, this is considered reasonable. There will be an updated report presented to Cabinet in October 2019 detailing budget reduction and income generation proposals that will be subject to formal budget consultation during October to December 2019.

The Council will need to maintain on delivering its budget in 2019/20 and focussing on savings for 2020/21 and thereafter if it is to remain financially resilient.

Reserves and Borrowing

We are satisfied from our review that the Council has sufficiency of reserves to bolster its finances should its savings plans not be delivered, but clearly reserves can only be used once.

We have also considered the Council's borrowing levels compared to its metropolitan neighbours within the West Midlands and also how its borrowing has moved historically. This graph shows that for this year the levels of borrowing are almost equivalent to the gross expenditure incurred for the year. While we note that the Council has reported to Cabinet in its Treasury Management Report that it is operating within the Prudential Code, we would advise the Council to monitor its borrowing levels, especially given the plans as noted in the Narrative Report to undergo further borrowing during 2019-20 of £166.1m.



Auditor View

On the basis of the work performed we have concluded that the risk was sufficiently mitigated and we are therefore satisfied that the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Strategic Asset Management

The Council's 2014/15 Annual Governance Statement noted that following the transfer of Corporate Landlord to City Assets (Place Directorate) in January 2015 the opportunity was being taken to further embed the Strategic Asset Management function. It was intended to ultimately establish a Strategic Asset Management Plan, rationalise the property base, and dispose of unneeded assets. It was noted in the 2015/16, 2016/17 and 2017/18 Annual Governance Statement that a Strategic Asset Plan had yet to be developed.

We reported last year that while we though arrangements were adequate, the speed of implementation was slow. We have revisited the Council's progress against this for 2018/19 through discussion with officers and review of relevant documents.

Findings

The Strategic Asset Plan was approved at Cabinet in October 2018 and has since been published on the Council's internet site. The plan comprises three documents:

- Asset Management Policy (5 year outlook)
- Asset Management Strategy (3 year outlook)
- Asset Management Action Plan (live document with continuous monitoring).

As part of the Corporate Plan there is a principal called ‘Our Assets’, which is to be an enabler for public service reform, through better utilisation of the collective public sector assets in the city. This will oversee the rationalisation of the estate, improve effectiveness and efficiency of services through co-location of service delivery and reduce ongoing maintenance costs. Objectives for this include: property portfolio strategy of the operational estate; disposals strategy and reduction in Council-owned buildings; increase occupancy and utilisation of buildings; delivery of a ‘One Public Estate’ through co-location of Health and Social Care Hubs, creation of a Public Sector Hub and public sector campus type arrangements (successful OPE funding obtained to deliver feasibilities); co-location of public sector providers to rationalise public sector estate; and co-location of services to support service provision to communities

In commencing ‘Our Assets’, the Council has recently established a Public Sector Asset Management Board seeing to deliver a place-based asset transformation approach, enabling collaborative working and ongoing rationalisation and disposal programmes across the public sector estate and borders. Members include University of Wolverhampton, LGA, Cabinet Office, WMCA, NHS, Blue Light services, Voluntary Sector Council, Justice Service and internal Council services

Auditor View

On that basis of the work undertaken by the Council during 2018/19 and our findings above, we are satisfied that the Council has proper arrangements in place for managing and utilising assets effectively to support the delivery of strategic priorities in this respect.

Civic Halls Refurbishment Findings

Auditor View

Our work on the Civic Halls is in progress.

Value for Money Arrangements Conclusion

As we have not completed our work on the Civic Halls we are unable to conclude our work on the Council's Use of Resources.

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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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

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	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	TBC	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, while yet to be confirmed is likely to be relatively small in comparison to the total fee for the audit of £145,860 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. The fee for the equivalent work in 2017/18 was £2,600.
Grant certification of Housing Benefit Subsidy Claim	16,000	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 when compared to the total fee for the audit of £145,860 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. The fee for the housing benefit subsidy claim certification in 2017/18 was £14,128.
Certification of Teachers Pension Return	4,500	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 when compared to the total fee for the audit of £145,860 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. This fee was £4,200 in 2017/18.
Non-audit related			
None	-	-	-

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

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Action plan

We have identified 1 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 2019/20 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
1	Medium	• The Council amended its date of valuation from 31 March to 1 April, meaning that both valuers have provided their valuations as at 1 April 2018. • We have undertaken additional work to satisfy ourselves that the values in the balance sheet as at 31 March 2019 are not materially misstated, but we recommend that the Council revisit this decision for next year.	• We recommended that the Council either perform a formal exercise each year to either ensure that all land and buildings reflect market value as at the year end where required (which includes investment and surplus properties), or otherwise are able to demonstrate that the value at which they are carried in the accounts is not materially misstated, either individually or in aggregate. **Management response** • We intend to change the valuation date in future to the end of December, in order to reduce the risk of material misstatement.
2	Medium	• We identified from our review of the journal control environment that both the Chief Accountant and the Director of Finance have the ability to post journals. • In our opinion these posting rights are incompatible with the duties of these posts. The Council has a large finance team and we would therefore expect all postings to the ledger to be executed by these lower levels of staff. Directors and Deputies have direct responsibility for the financial performance of the Council and journals posting access is considered to be an enabling factor to the risk of management override of controls.	• The ability of a senior officer to raise journals is not best practice. We therefore recommend eliminating this access. **Management response** • The Chief Accountant and Director of Finance have never actioned journals, however access to be able to do so has now been removed.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

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Follow up of prior year recommendations

We identified the following issues in the audit of City of Wolverhampton Council's 2017/18 financial statements, which resulted in 2 recommendations being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	• We note that the Council does not update its accounting models on an annual basis to reflect the actual unitary payment made and the impact of actual RPI. If the Council's models enable this to be done it would be good practice to model the impact on the future committed payments. • The Code does not state whether the details should specify an estimate of the cash amount that will actually be paid or an estimate based on prices at the Balance Sheet date. Council's are therefore free to choose which (or both) will be more informative.	• The Council has updated its models. Recommendation therefore considered closed.
2	✓	• The Council did not apply the correct percentage to the valuation of Council Dwellings to reflect the existing use value for social housing, which has resulted in an understatement of £109.6m. • We recommended that the Council put robust quality assurance mechanisms in place to ensure that the valuations within the financial statements are correct.	• The error in valuation adjustment in prior year has been superseded by the current year's valuation. We have identified no such error in the current year and therefore recommendation considered closed.

Assessment
✓ Action completed
X Not yet addressed

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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 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	Revised pensions report to take into account the impact of McCloud on the Council's accounts • Increase in past service cost of £13.4m • Increase in net defined liability of £13.4m	£13.4m	-£13.4m	-
2	Revised pensions report to take into account the impact of McCloud on the net defined liability of Wolverhampton homes Limited which impacts on the group accounts • Increase in past service cost of £2.1m • Increase in net defined liability of £2.1m	£2.1m	-£2.1m	
	Overall impact	**£15.5m**	**£15.5m**	**-**

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Audit Adjustments

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	Detail	Adjusted?
Note 1G: Expenditure and Income Analysed by Nature	A number of expenditure line items with Note 1G have been amended as follows: • Other service expenses has increased by £13.4m • Depreciation has increased by £0.4m • Loss on disposal has increased by £3.0m • Interest payments have increased by £1,2m • Levies have decreased by £45.2m Two income line items within Note 1G have been amended as follows: • Fees and charges have decreased by £12.9m • Interest and investment income has increased by £12.9m	TBC

Movement in Reserves	• There were a number of challenges raised in relation to the internal consistency of the financial statement via our review of the movement in reserves statement. The finance team are reviewing our queries and we await their response as at the time of writing.
	  • Aside from the adjustments referred to above, the MIRs has been updated to show:
	  • adjustment between the group and authority figures
	  • Total usable and unusable reserves excluding the reserves of the subsidiary
	  • Total for the general fund
	  • To show the increase/ decrease before adjustments between accounting and funding basis.
		TBC

Business acquisition	Following the termination of the waste contract with Amey on 1st September 2018, waste collection and recycling facilities were transferred back to the Council. Through audit procedures this has been identified as a business acquisition and appropriate disclosures are to be added to the financial statements in accordance with IFRS 3 to explain the transaction that has been undertaken.	TBC
Pooled budgets	Accounting policy to be included and Note 2c to be amended to include how the pooled budget has been accounted for.	TBC
Schools transfers	Accounting policy updated to confirm that on transfer of schools to academy status, any related assets are derecognised.	TBC

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Audit Adjustments

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	Detail	Adjusted?
Financial instruments	In the draft financial statements the narrative report refers to LOBOs but they were not disclosed explicitly in the financial instruments note. Disclosure is being included to set out the relevant interest rates, method of valuation and any risks associated with them.	**TBC**
New standards	Narrative added to the financial statements to explain transition to new accounting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers	**TBC**

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	**PFI liability value** The liability disclosed in relation to St Matthias and Heath Part is £1.033m lower than the audit estimate The liability disclosed in relation to Highfields and Penn is £1,598m lower than the audit estimate.	-	-2,061	-	This was not adjusted on the grounds of materiality. There will be no impact on the current year accounts as it will be superseded by the results of our review of the current year disclosure
	Overall impact	**-**	**-2,061**	**-**	

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Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit and Risk Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	We identified two errors within our sample testing of fees and charges relating to incorrectly coded internal recharges, which has the effect of overstating income in the comprehensive income and expenditure statements. When projected across the whole population, this gives a potential misstatement of £2.1m. We are in the process of extending our testing to decrease the level of projected error.	TBC	TBC	TBC	TBC
2	The Council undertook its valuations as at 1 April 2018, which the exception of Council Dwellings which were valued as at 31 March 2019. We have considered the valuations of all assets and compared them to market indices. We have identified a potential understatement of £12.2m.		Non-current assets £12.2m Revaluation reserve £12.2m	-	Not considered to be material
3	Understatement of PFI borrowings by £2.236m which if adjusted for would have the effect of increasing the Council's liability		-£2.2		Not considered to be material
4	An understatement of pension liabilities by approximately £1.7m in relation to the GMP pension ruling		-£1.7		Not considered to be material
	Overall impact	TBC	£8.5	TBC	TBC

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Fees

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

Audit Fees

	2017/18 Final Fee	2018/19 Proposed fee	2018/19 Final fee
Council Audit	£189,428	£145,860	£TBC
Total audit fees (excluding VAT)	**£189,428**	**£145,860**	**£TBC**

The final audit fee represents a year on year reduction of £34,568.

Required Additional Audit Work	Description of Work Required	Proposed fee
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements.	£3,000
Pensions – IAS 19	The Financial Reporting Council has highlighted the need for more in depth work by audit firms in respect of IAS 19. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	£2,000
PPE – additional work	The Financial Reporting Council has highlighted the need for more in depth work by audit firms in respect of PPE. We have increased the volume and scope of our audit work to reflect this.	£2,000
VFM – Civic Hall	We undertook additional work to assess the Council's arrangements with regard to the Civic Hall.	£TBC
Governance	We undertook additional work in relation to laws and regulations as reported on page 21.	£2,500
Total additional estimated audit fees (excluding VAT)		**£9,500**

Other Fees

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

Other audit Fees

	Proposed fee	Final fee
Audit of subsidiary company Wolverhampton Homes Limited	27,000	27,000
Audit of subsidiary company City of Wolverhampton Housing Company Limited, (trading as WV Living) *	20,000	TBC
Audit of subsidiary company Yoo Recruit Limited (not consolidated on grounds of materiality) *	13,500	TBC
Total audit fees (excluding VAT and those fees to be confirmed)	**60,500**	**27,000**

* The audit of these companies have yet to take place in respect of the year ending 31 March 2019 and as the audit plans have not yet been issued, the fees are yet to be confirmed. The fees charged in the prior year for City of Wolverhampton Housing Company Limited and Yoo Recruit Limited were £12,000 and £13,000 respectively. Fees payable in 2017-18 in respect of these companies was therefore £39k.

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• Housing capital receipts **	TBC
• Housing Benefit Subsidy Claim	16,000
• Teachers Pension Return	4,500
Non-audit services Final bill for Telecoms project for work undertaken in previous years, as reported in our 2015-16 Audit Findings Report	2,500
Total excluding those fees to be confirmed	**23,000**

The audit-related services in relation to housing capital receipts has yet to be planned in respect of the year ending 31 March 2019 an therefore the fees are yet to be confirmed. The fee charged in the prior year was £2,600.

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Audit opinion

We anticipate we will provide the Group with an unmodified audit report, with an except for VFM conclusion. Wording of the opinion will be confirmed in due course.

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Management Letter of Representation

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
BIRMINGHAM
B4 6AT

[Date]

Dear Sirs

City of Wolverhampton Council
Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of City of Wolverhampton Council and its subsidiary undertakings, City of Wolverhampton Housing Company Limited and Wolverhampton Homes Limited for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the group and parent Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Group Financial Statements

We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

i. We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/19 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

vi. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Council has been assigned, pledged or mortgaged there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have

DRAFT

Management Letter of Representation

been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the group and parent Council financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the group and parent Council financial statements for these misstatements brought to our attention as they are **[either]** immaterial to the results of the group and parent Council and its financial position at the year-end **[or]** for the reasons noted on the schedule **[or]** for the reasons noted below. The group and parent Council financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.

xiv. We believe that the group and parent Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xvi. We have communicated to you all deficiencies in internal control of which management is aware.

xvii. All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.

xviii. We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the group and parent

DRAFT

Management Letter of Representation

c. Council financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.

xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii. We have disclosed to you the identity of the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxv. The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council’s Audit and Risk Committee at its meeting on 23 July 2010.

Yours faithfully

Name……………………………

Position…………………………

Date……………………………

Signed on behalf of the Governing Body

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grantthornton.co.uk