

Audit and Risk Committee Update

City of Wolverhampton Council

Year ended 31 March 2016

July 2016

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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.

Introduction

This paper provides the Audit and Risk Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you.

Members of the Audit and Risk Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Better Together: Building a successful joint venture company <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>
- Knowing the Ropes – Audit Committee; Effectiveness Review ; www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/
- Making devolution work: A practical guide for local leaders (October 2015) www.grantthornton.co.uk/en/insights/making-devolution-work/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead, Manager or Assistant Manager.

Progress to date

| Work | Planned date | Complete? | Comments |
|--|--------------------------|-------------|--|
| 2015/16 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on Council's 2015/16 financial statements. | March 2016 | Yes | We continue to assess the risks facing your Council and meet with Senior Officers to ensure that these risks are fully understood and our audit work is appropriate. If there are any changes to our plan between our initial risk assessment and the delivery of your opinion we will discuss this with the Director of Finance before presenting to the Audit and Risk Committee. |
| Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • reviewing the Council's control environment • understanding and documenting the Council's financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing | January 2016 – June 2016 | Yes | We have: <ul style="list-style-type: none"> • engaged with the finance team to streamline and improve the audit approach for 2015/16 where possible, • discussed technical issues early including asset valuations and disclosure, • undertaken as much early testing as possible, • continued to meet with Senior officers to ensure our understanding of your business is up to date. We have continued to work closely with Internal Audit in relation to risk, work on the financial statements and fraud. |
| 2015/16 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2015/16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. | July – September 2016 | Not started | We will undertake work on your draft financial statements to provide an opinion by the statutory deadline. Our discussions with the finance team have agreed that we will aim to deliver this work ahead of the national timetable in preparation for the shorter deadlines in 2017/18. |

Progress to date (continued)

| Work | Planned date | Complete? | Comments |
|---|---------------------|-------------|--|
| <p>Value for Money (VfM) conclusion</p> <p>The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance we are required to follow, as issued by the National Audit Office in November 2015, confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties | January – July 2016 | In progress | <p>We have set out the result of our risk assessment and the proposed focus of our work at pages 7 and 8.</p> <p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report.</p> <p>We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.</p> |
| <p>Annual Audit Letter</p> <p>A summary of all work completed as part of the 2015/16 audit.</p> | October 2016 | Not started | We will summarise our findings from the 2015/16 audit and report to the November 2016 Audit and Risk Committee. |

Progress to date (continued)

| Work | Planned date | Complete? | Comments |
|---|----------------------|-------------|--|
| <p>Grant work (PSAA regime)</p> <p>We plan to certify the following claim:</p> <ul style="list-style-type: none"> Housing Benefits Claim 2015/16 (BEN01) <p>This work is completed under the HBCOUNT methodology determined by DWP and we report directly to DWP in line with their timescales.</p> | June – November 2016 | In progress | <p>We will not prepare a Certification Plan on the basis that there is only one claim now under the PSAA regime and the fee is communicated via the annual fee letter.</p> <p>We have held a planning meetings with officers to discuss the approach to this work in 2015/16.</p> <p>Testing of the initial sample of cases is underway.</p> |

| Work | Comments |
|---|--|
| <p>Other areas of work</p> <p>We have been separately appointed by the Council to undertake a Cost Assurance Assignment.</p> | <p>The team carried out an independent audit review of the whole estate across all Council properties including both corporate and school sites. The results of our review highlighted combined rebate and savings opportunities in excess of £250k.</p> <p>We have continued to work closely with the Council and negotiated with suppliers on their behalf and have been able to successfully deliver these refunds.</p> |
| <p>Other areas of work</p> <p>We have been separately appointed by the Council to undertake work in relation to Income Generation.</p> | <p>This work is not yet underway.</p> |

Value for Money

Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance 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 have completed our initial risk assessment based on the NAO's guidance. In our initial risk assessment, we have considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies where appropriate.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We are now in a position to report our risk assessment which drives our planned work for 2015/16 to meet our duties in respect of the VfM conclusion. This includes any significant risks identified, along with details of the work we plan to carry out to address these risks.

| Sub-criteria | Detail |
|---|---|
| Informed decision making | <ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of good governance• Understanding and using appropriate cost and performance information to support informed decision making and performance management• Reliable and timely financial reporting that supports the delivery of strategic priorities• Managing risks effectively and maintaining a sound system of internal control |
| Sustainable resource deployment | <ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions• Managing assets effectively to support the delivery of strategic priorities• Planning, organising and developing the workforce effectively to deliver strategic priorities. |
| Working with partners and other third parties | <ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities• Commissioning services effectively to support the delivery of strategic priorities• Procuring supplies and services effectively to support the delivery of strategic priorities. |

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

| Significant risk | Link to sub-criteria | Work proposed to address |
|--|---|--|
| <p>Medium Term Financial Resilience</p> <p>The Council has historically managed its finances well, achieving financial targets and is on course to underspend against its 2015/16 budget. Nevertheless the scale and pace of change for local government will effect future projections, particularly following announcements from the Comprehensive Spending Review, Autumn Statement 2015 and then more recently the provisional Local Government Finance Settlement 2016/17 published in December 2015.</p> | <p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p> | <p>We will review the Council's arrangements for identifying, agreeing and monitoring its financial sustainability and operational plans, and for communicating key findings to the Cabinet and Audit and Risk Committee.</p> <p>We will review the Council's updated medium term financial plan and monthly financial monitoring reports and assess the assumptions used. We will:</p> <ul style="list-style-type: none"> • review reporting of in-year financial position and forecast outturn. • consider progress made with 2016/17 financial plans and assess the key assumptions included in it. • identify progress with developing a deliverable medium term financial plan |
| <p>Schools effectiveness and attainment</p> <p>The most recent OFSTED report (2014) discusses what the regulator considers to be "unacceptable inspection outcomes" in that "Wolverhampton continues to have a higher proportion of pupils educated in schools that are not good than both the regional and national averages." At the time of the report, from the thirteen schools inspected, seven were graded good; five required improvement and one was judged to require special measures. There has been improvement from this position: it was reported to Audit and Risk Committee in March 2016 that eight schools were underperforming and 13 required improvement.</p> | <p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p> | <p>We will review the plans put in place by the Director of Education and his team to improve the performance of the schools during the year.</p> <p>We will assess evidence of the Council meeting the improvement targets that it has set itself. We will also review the Council's plans for continuing to improve the levels of educational achievement for the City's young people.</p> |

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

| Significant risk | Link to sub-criteria | Work proposed to address |
|--|---|---|
| <p>Adult and Children's Social Care</p> <p>The revenue budget monitoring reports during the year noted predicted overspends of £1.7 million across Older People budgets and £1.4 million on Disability & Mental Health. As at the year-end Older People budgets were underspent by £63k due to receipt of Better Care Fund monies of £1.9m from the CCG, and the Disability & Mental Health budget was overspent by £2.2 million.</p> <p>The Children & Young People Directorate, were predicting an underspend of £1.2 million as at March 2016. As at the year-end this underspend has now increased to £3.4 million. As at the time of our planning discussions, the number of Looked After Children was 676 against a target of 540. This has reduced since our initial discussions to 654, as reported in the quarter four performance indicators in the Corporate Performance Report.</p> | <p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p> | <p>We will review the outturn in Adult's Social Care to understand the reasons for any continued overspends. We will review the actions that are being undertaken to control the level of overspend for future years as well as progress in addressing the red rated areas of performance in the Corporate Performance reports.</p> <p>We will review the actions being taken by the Council to control the numbers of Looked After Children.</p> |
| <p>Strategic Asset Management</p> <p>The Council's 2014/15 Annual Governance Statement noted that following the transfer of Corporate Landlord to City Assets within the Place Directorate in January 2015 the opportunity was being taken to further evaluate many of the management, operational and governance arrangements put in place when the Corporate Landlord model was first established. This process was intended to further embed the Strategic Asset Management function and was intended to ultimately establish a Strategic Asset Management Plan.</p> | <p>This links to the Council's arrangements for managing and utilising assets effectively to support the delivery of strategic priorities.</p> | <p>We will review the action taken against the risks identified in the prior year's AGS with regard to asset management.</p> |

Better Together: Building a successful joint venture company

Grant Thornton reports

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

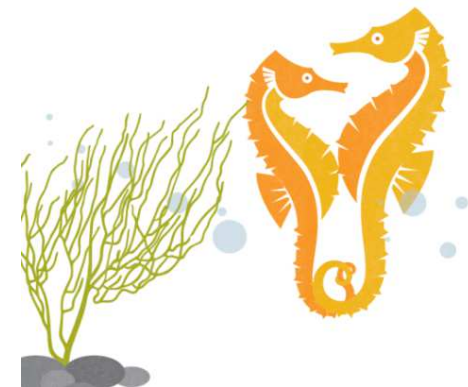
Our report, Better Together: Building a successful joint venture company, can be downloaded from our website:

<http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>



ALTERNATIVE SERVICE DELIVERY MODELS IN LOCAL GOVERNMENT

Better together
Building a successful
joint venture company



Knowing the Ropes – Audit Committee Effectiveness Review

Grant Thornton reports

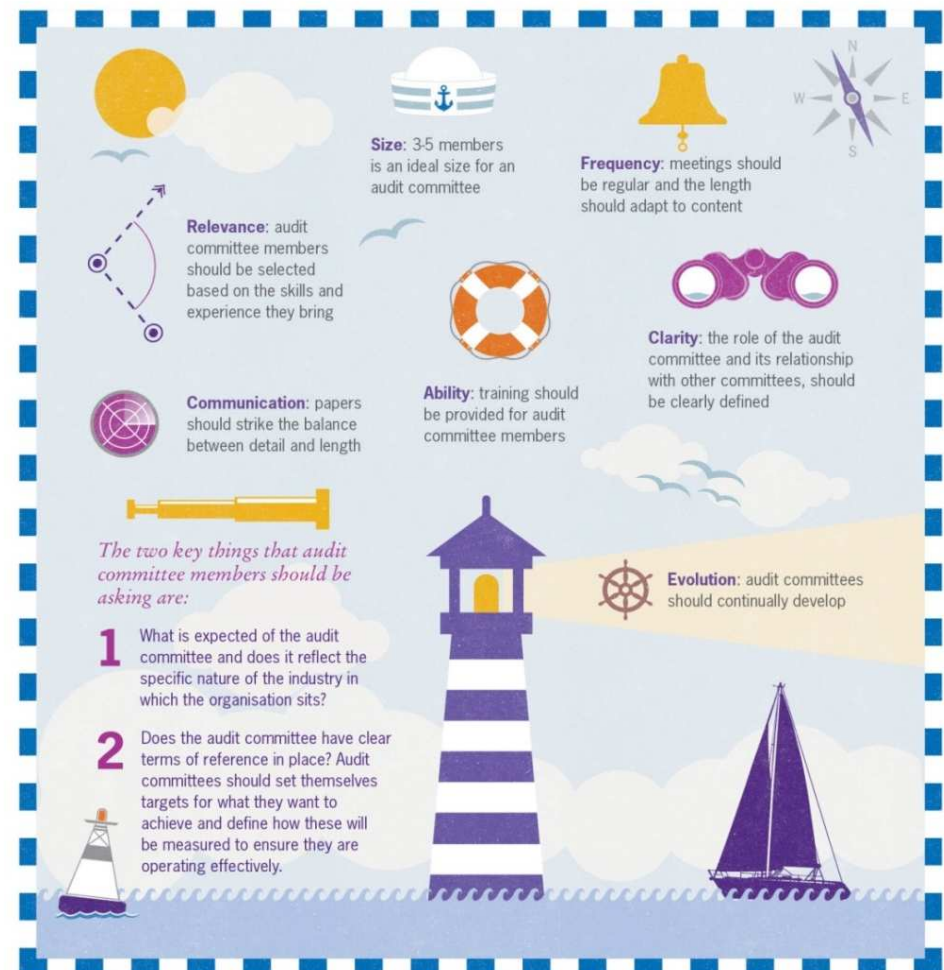
We have published our first cross-sector review of Audit Committee effectiveness encompassing the corporate, not for profit and public sectors.

It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. The report is structured into four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

The detailed report is available here

<http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>



Fighting Fraud and Corruption Locally

CIPFA publication

Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape .

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- illustrates the financial benefits that can accrue from fighting fraud more effectively
- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

The strategy can be downloaded from

<http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>





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