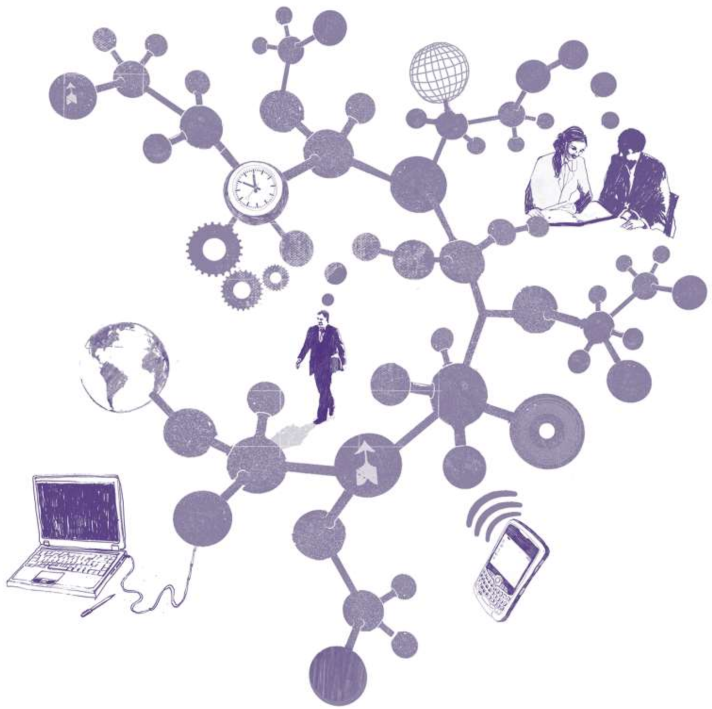
The Audit Findings for City of Wolverhampton Council

Year ended 31 March 2017

September 2017



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September 2017

Dear Members of the Audit and Risk Committee

Audit Findings for City of Wolverhampton Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of City of Wolverhampton Council, the Audit and Risk Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

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 primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Mark Stocks

Engagement lead

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of the City of Wolverhampton Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 13 March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- Responses to our queries in respect of the Dedicated Schools Grant disclosure
- Completion of our work on Operating Segment disclosures encompassing the EFA
- Completion of our review of the higher paid staff disclosure
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts
- Completion of our work on pension guarantees.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. As is usual we requested additional working papers throughout the audit to support our testing. We will work with officers over the coming year to identify all relevant working papers that can be prepared and provided ahead of next year's accounts to make the process even smoother and frontload as much of the effort as possible.

Key audit and financial reporting issues

Financial statements opinion

We have identified several adjustments, but these are mainly disclosure in nature and do not affect the Group and Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded net expenditure of £98.2m (Council) and £102.6m (Group); the audited financial statements show net expenditure of £98.2m and £102.6m respectively. We have also recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- Last year's audit took longer than anticipated due to the number of amendments identified to the financial statements and the limited capacity of the finance team. We are pleased to report that the process was much smoother this year due to designated contacts being in place and the "project management" of the audit process undertaken with Council officers.
- The accounts preparation process was also much improved this year, with draft accounts being made available to us on 13 June 2017; 17 days earlier than in 2015/16. In 2015/16 the accounts presented for audit were then subject to further revision by the Council. We are pleased to report that this did not recur for 2016/17, which helped towards a more efficient process.
- The Council's financial statements include the accounts of the West Midlands Pension Fund. A separate Audit Findings Report is being presented to and considered by the Pensions Committee in respect of our audit of the Pension Fund.

We anticipate providing an unqualified audit opinion in respect of the financial statements (see Appendix B).

Further details are set out in section two of this report.

Other financial statement responsibilities
As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities
The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further details of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit and Risk Committee which is due in February 2018.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Director of Finance and the finance team.

Acknowledgement

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, particularly Claire Nye, Emma Bland, Charlotte Baker and James Barlow.

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £13,872k (being 1.75% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have revised our overall materiality to £13,465k (being 1.75% of gross revenue expenditure). This is on the grounds that our planning materiality was based on the forecast gross revenue expenditure, and has been revised to take into account the gross revenue expenditure of cost of services of £764.5m in the draft accounts as presented for audit.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £673k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	Related party transactions have to be disclosed if they are material to the Council or to the related party	£20,000 however this may be lower as the concept of related party transactions takes in to account what is material to both the Council and the related party.
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a 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 City of Wolverhampton Council, we have determined 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; and • the culture and ethical frameworks of local authorities, including City of Wolverhampton Council, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any issues in respect of revenue recognition.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We have • Reviewed entity controls • Reviewed the journal entry process and selection of unusual journal entries for testing back to supporting documentation • reviewed accounting estimates, judgements and decisions made by management • Reviewed any unusual significant transactions identified	Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Valuation of property, plant and equipment The Council has amended the process it applies to revaluations. Previously it revalued its assets on a rolling basis over a five year period, but from 2016/17 onwards it will revalue all assets over £1 million every year, 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 5 years, in line with the Code requirements. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	We have • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work • Discussed the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.	Work in respect of Property, Plant and Equipment is incomplete as at the time of writing. In 2016/17 the Council have had valuations on a number of assets: • Council dwellings • Assets with a value over £1m • Assets with a value under £1m selected as part of the on-going 5 year revaluation programme • Review of assets not valued to ensure the carrying value and current/fair value are not materially different at the balance sheet date Our detailed findings in respect of this work are on page 13.
Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.	We have • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.	The Council did not inform the actuary of the number of redundancies to have taken place during the 2016/17 financial year and therefore the actuary was unable to take this into account in their valuation of the pension fund net liability. The actuary has since confirmed that had he known the information, the difference it would have made to the liability would have been to increase it by £161k which is clearly trivial, and therefore no adjustment has been proposed in this regard. We have raised a recommendation to the Council to ensure that the actuary is made aware of any information pertinent to their calculations on a timely basis.

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Changes to the presentation of local authority financial statements CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	We have: • Documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements. • Reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • Reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.	We are satisfied that the amended format of the CIES is consistent with the internal reports of the Council and that the mapping of previous years figures to the restated format has been done appropriately. We identified an additional disclosure that the Council needed to make in its financial statements to ensure full compliance with the Code. This is a note beneath the EFA to analyse income and expenditure by nature. This has been included as a disclosure amendment on page 31.

Audit findings against property, plant and equipment

In this section we detail our specific findings in relation to our work on the property, plant and equipment non cycle.

Property plant and equipment
Work Completed We have undertaken the following work in relation to this transaction cycle: • We obtained the fixed asset register and agreed this to the notes in the financial statements • We performed sample testing on the movements in property plant and equipment during the year • Compared the disclosures against the requirements of the Code to ensure compliance
Findings The Council have carried out a significant amount of work during the year to cleanse the data within the fixed asset register following the issues that were identified last year in terms of reports being generated from the asset register system producing inconsistent outputs. This has led to an “Other Changes – Gross Value” line being added to Note 10 of £2.2m. There are however further issues that have been identified from our work this year. **Revaluations** We carried out work to ensure that the revaluation of specialised and non-specialised fixed assets have been correctly accounted for. A number of differences were identified. Some were due to assets being revalued which had been disposed of and some differences due to assets being split over several lines in the fixed asset register. We identified that the gross cost is overstated by £4,343k (0.25% error as a percentage of total cost) and accumulated depreciation overstated by £788k (0.30% error as a percentage of total accumulated depreciation) giving a net over statement of £3,555k (0.25% error as a percentage of total net book value). This has been recorded as an unadjusted misstatement. **Investment Properties** The Council has a procedure of revaluing all assets with a value above £1m, including investment properties. The Code requires that after initial recognition, Investment Property needs to be measured at fair value. It states the fair value of an investment property shall reflect market conditions at the end of the reporting period. We consider that to comply with the Code that the Council should be seeking valuations of Investment Properties as at the end of each reporting period. We have reviewed the revaluations performed and are satisfied that the valuation of Investment Properties is not materially misstated as at 31 March 2017. We have raised a recommendation to ensure that the Council perform a formal exercise each year to either ensure that all investment properties reflect market value as at the year end or otherwise demonstrate that the value at which they are carried in the accounts it not materially misstated. **Academy school assets** We identified that the value of property, plant and equipment in 2015/16 was overstated by £2,529k due to schools converting to Academy status but the value of their assets not being shown as a disposal. The Council have disposed of these assets during 2016/17 and therefore the balance at 31 March 2017 is not overstated. We have recorded this in the table summarising the impact of uncorrected misstatements in the prior year on page 30. **Housing valuations** The district valuer has provided a beacon valuation for Council Dwellings. When extrapolated across the population of total Council Dwellings this results in an increase in value of £7.5m. This has not been adjusted for as the Council does not considered it to be material as it only represents a 1.09% change in value. We have recorded this as an unadjusted error.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs. We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention: • Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested the completeness of the subsidiary system interfaces and control account reconciliations • confirmed our understanding of the accruals process and test accruals • performed cut off testing of purchase orders and goods received notes (both before and after year end). • Testing will also cover a sample of operating expenses covering the period 1/4/16 to 31/3/17 to ensure they have been accurately accounted for and in the correct period.	During our cut-off testing we identified that £2.4k of items from a sample of £38k had not been accounted for in the correct period. By extrapolating this projected error across the population we identified that the potential error could be in the magnitude of £1.9 million. We are satisfied that this would not present a material misstatement and therefore no proposed adjustment has been raised. The issue has arisen due to the accounting policy put in place by the Council of not accruing balances less than £10k, as noted in the accounting policies. This is considered to be a reasonable policy as it is with the aim of reaching faster closedown. We recommend that the Council keep the policy under review and ensure that it does not result in a material error.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Payroll expenditure represents a significant percentage of the Council's gross expenditure. We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention: • Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements • created and reviewed the monthly trend analysis of total payroll • performed substantive testing of employee remuneration • performed substantive testing of senior officer remuneration	We have not identified any issues to date in relation to the work performed.

Going concern

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&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that the disclosures are appropriate.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Wolverhampton Homes Ltd	Yes	Targeted	• Alignment of group accounting polices • Adequacy of disclosures within the group financial statements	• Specific (targeted) scope procedures to be performed by non GT member firm, RSM • We are yet to review the outcome of the of the audit work carried out by RSM as it has not yet been provided	Our conclusion in this area is outstanding as at the time of writing pending receipt of information requested from the auditors of Wolverhampton Homes Limited which we will use to provide assurance over the balances used by the Council in the consolidation process. We have performed an initial review of the consolidation performed and have not identified any issues from the work carried out to date.

In addition to the work described above, we have also reviewed the Council's treatment of its other subsidiaries and associates. These are noted overleaf for completeness.

In summary, we considered the Council's assessment of the group boundary and the adequacy of the determination of those entities that are included within Group Accounts in 2016/17. We also reviewed the approach to align the accounting policies, review the consolidation adjustments and assess whether the disclosures within the group financial statements are in accordance with the Code requirements. Our work also considered the adequacy of the specific disclosures for interests that are not incorporated into the group accounts. The table above considers the 'component' identified by the Council to be consolidated into the group accounts.

Group audit scope and risk assessment

The table below documents each of the Council's associates and its treatment within the Council's financial statements, with the exception of Wolverhampton Homes Ltd, which has already been disclosed on the previous page.

Entity	Details	Type	Assurance gained & issues raised
Birmingham Airport Holdings Ltd	The Council is a shareholder in this company	Investment	We concur with the Council's treatment of this entity as an investment to be classified as an available-for-sale asset. The valuation has been performed by BDO on behalf of the West Midlands shareholding consortia. Our internal valuation specialists have reviewed the work performed and we are satisfied that the approach used is reasonable. The Councils investment in BAH Ltd has increased year on year by £4.4m as at 31 March 2017.
I54 Management Company Limited	This is a company limited by shares with the Council and Staffordshire County Council each owning one share each. It oversees the work done by i54 Joint Venture	Joint Venture, but not material, therefore entity not consolidated within the group accounts	We concur with the Council's treatment,. While this meets the definition of Joint Venture, it is not considered to be material and therefore has not been included within the group accounts, other than as a related party disclosure.
I54 Joint Venture	An arrangement developed in partnership with Staffordshire County Council for the development of i54	Jointly Controlled Operation, therefore entity not consolidated within the group accounts	Although termed a 'Joint Venture' it does not in fact constitute a Joint Venture, as defined by IAS28. It is a cost sharing arrangement between the City of Wolverhampton and Staffordshire County Council for the delivery of i54. Income and expenditure contributed and incurred by each Council is reflected in each Council's financial statements. The disclosure in the financial statements has therefore been updated to remove reference to it being a 'joint venture'.
WV Living	This was formed as a wholly-owned subsidiary of the Council in 2016/17.	Subsidiary: not consolidated on grounds of materiality.	We agree with the Council's treatment. Set-up costs of £460k have been incurred during the year, which is not considered to be material and therefore it is appropriate that this entity has not been consolidated into the group accounts. The Council have disclosed this as a critical judgement within the accounts.
Yoo Recruit	This was formed as a wholly-owned subsidiary of the Council in 2013/14.	Subsidiary: not consolidated on grounds of materiality.	We agree with the Council's treatment. The Council have disclosed this as a critical judgement within the accounts.

Group audit scope and risk assessment

The table below documents the Council's associate and its treatment within the Council's financial statements, with the exception of Wolverhampton Homes Ltd, which has already been disclosed on the previous page.

Entity	Details	Type	Assurance gained & issues raised
Wolverhampton Grand Theatre (1982) Limited	This is a company limited by guarantee and responsible for running the Grant Theatre. The Council • can appoint 2 directors • owns the building from which the Theatre is run at £nil rent • subsidises the running costs of the theatre	Interest with significant influence. Not material to the group accounts, therefore entity not consolidated within the group accounts	We concur with the Council's treatment. The Council have disclosed this as a critical judgement within the accounts.
Wolverhampton Schools Improvement Partnership	This is a company limited by guarantee. Two Council Cabinet members are Directors as well as the Head of Education Service, but only the latter has voting rights	Interest with no significant influence or control, therefore entity not consolidated within the group accounts	We concur with the Council's treatment.
Black Country Consortium Limited	This is a company limited by guarantee. The Council has one director of eight on the Board.	Interest with no significant influence or control, therefore entity not consolidated within the group accounts, therefore not included within the group accounts	We concur with the Council's treatment.
WV One Limited	Although the Council has 3 elected members on the Board, this company is currently in liquidation.	Cost sharing agreement, therefore entity not consolidated within the group accounts	We concur with the Council's treatment
Wolverhampton Business Park	This is an arrangement in partnership between the Council and Bibbeys. At 11%, the Council's interest is not considered to be significant.	Interest with no significant influence or control, therefore entity not consolidated within the group accounts	We concur with the Council's treatment
Wolverhampton Business Solutions Centre	The partnership behind this venture comprises the Council, the University of Wolverhampton and the Black Country Chamber of Commerce. Each partner contributes to the costs of running the centre.	Cost sharing agreement, therefore entity not consolidated within the group accounts	We concur with the Council's treatment

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. • Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. • Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than necessarily the cash flows fixed or determined by the contract. • While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Authority's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is an Authority's precept or demand for the year, plus or minus the Authority's share of the surplus/deficit on the Collection Fund for the previous year. • The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year. • The NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors (excluding police bodies) and the Government. The amount credited to the General Fund under statute is the Authority's estimated share of NDR for the year from the National Non Domestic Rates (NNDR) 1 return. • The NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year from the NNDR 3 return.	We have reviewed the Council's policy against the requirements of the Code and are satisfied that the policy is appropriate and adequate disclosures have been made in the financial statements.	● (green)

Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	• Key estimates and judgements include: – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Equal Pay provision	We have considered the key estimates and judgements included in the accounts and note the following: **Valuations and revaluations** We identified a number of issues with regard to the valuation and revaluation of PPE. These are detailed on page 13. **Depreciation** We have tested a sample of depreciation charged during the year to ensure that calculation has been appropriately made. There were no issues arising from our work. **PFI** In order to gain assurance over the PFI Liability we have compared the model used by the Council with our expectations, which has provided us with assurance over the suitability of the model and the estimates created. We have identified some differences between the Council's model and our model - these will be noted in the misclassification and disclosure section of the AFR as there is no significant overall impact on the liability. Our detailed findings are shown on pages 34 and 35.	● (amber)

Assessment
● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

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Accounting area	Summary of policy	Comments	Assessment
Going concern	The Director of Finance, s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	●
Other accounting policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	●

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

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 and have not been made aware of any incidents in the period that would impact on our audit
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any 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.
4.	**Written representations**	• A standard letter of representation has been requested from the Council, including specific representations in respect of the Group, which is appended to the Audit and Risk Committee papers.
5.	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to all those organisations with which it invests with, borrows from and banks with. This permission was granted and the requests were sent. The majority of those requests were returned with positive confirmation, however 2 requests remain outstanding as at the time of writing. We have undertook alternative procedures in the meantime but continue to chase confirmations alongside Council officers directly wit the third party.
6.	**Disclosures**	• We recommended a number of disclosure amendments to the draft financial statements to improve the presentation and to ensure compliance with the Code. The most significant of these are noted within the Misclassifications and Disclosure Changes section of our report.
7.	**Matters on which we report by exception**	• We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following 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 information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	**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 we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Note that the work will be completed in due course ahead of the deadline of September 29.

Internal controls

	Assessment	Issue and risk	Recommendations
1.	●	**Lack of Formal Reviews of Information Security Policies and Procedures** The Personal Use of Council Computer Equipment and Access to Social Media Policy has not been formally reviewed or updated since 2014. This condition poses the following risks to the Council: • The latest security administration processes and control requirements may not be understood by, or communicated to those within the organization responsible for observing and/or implementing them. • Effectiveness of security administration processes and controls may be diminished due to environmental and/or operational changes since the document was last updated. • Information security processes, requirements and controls may be inconsistently defined, understood and implemented throughout the organization. • The lack of formal (documented) information security requirements may make sanctioning employees for inappropriate use of information resources more difficult. For example, a user who caught sharing personal passwords with other employees may be able to claim ignorance of any wrongdoing as this action did not violate any organizational policy documents.	• Information security policies and procedures should be reviewed at planned intervals (preferably annually) or when significant changes occur to ensure for their continuing suitability, adequacy and effectiveness.
2.	●	**Northgate Sx3 password complexity enforcement** Password complexity (i.e. the requirement that passwords must contain more than one character set, such as numbers and letters) was not enforced within Northgate Sx3. This condition poses the following risk to the Council: • Compromise of user accounts through password guessing or cracking.	• Password complexity should be consistently enforced within Northgate Sx3.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Assessment

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

Internal controls

	Assessment	Issue and risk	Recommendations
3.	●	**Change Management Policies and Procedures** Change Management policies and procedures have not been formally reviewed or updated since their creation in 2006. This condition poses the following risks to the Council: • Timely and appropriate change and patch management processes and control requirements may not be formalized or communicated to those within the organization responsible for observing and/or implementing them • Effectiveness of change and patch management processes and controls may be diminished due to environmental and/or operational changes that have taken place since 2006. • Change and patch management may not be effectively administered, leading to loss of data integrity, processing integrity and/or system down-time.	• Documented policies and procedures addressing change management processes and related control requirements (such as change testing, approvals, and documentation requirements) within Northgate Sx3, Agresso should be reviewed, updated and formally approved by the appropriate members of the organisation. • These should be communicated to the relevant personnel responsible for implementing them and/or abiding by them. Furthermore, training should be provided to ensure on-going compliance where appropriate. An individual should be assigned the responsibility for ensuring that the documentation is reviewed on a periodic basis along with effective version control.
4.	●	**Shared generic accounts used for Northgate database maintenance** Database maintenance and administration is performed through shared, generic accounts. In order to assign personal accountability to accounts with elevated access each account should be assigned to a named individual. This condition poses the following risks to the organisation: • a) Bypass of system-enforced internal control mechanisms through inappropriate use of administrative functionality by (1) making unauthorised changes to system configuration parameters, (2) creation of unauthorised accounts, (3) making unauthorised updates to their own account's privileges, or (4) deletion of audit logs or disabling logging mechanisms. • b) Internal access to information assets and administrative functionality may not be restricted on the basis of legitimate business need.	• All interactive security administrator accounts should be aligned with one named individual.

Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

Internal controls

	Assessment	Issue and risk	Recommendations
5.	●	**Proactive reviews of logical access within Agresso and Active Directory** User accounts and associated permissions within Agresso and Active Directory are not formally, proactively reviewed for appropriateness. This condition poses the following risks to the organisation: • Gaps in user administration processes and controls may not be identified and dealt with in a timely manner. • Access to information resources and system functionality may not be restricted on the basis of legitimate business need. • Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls. • No-longer-needed permissions granted to end-users may lead to segregation of duties conflicts. • Access privileges may become disproportionate with respect to end users' job duties.	• It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Agresso and Active Directory. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).
6.	●	**Reviews of Information Security logs created by Northgate Sx3, Agresso and Active Directory** Logs of information security activity within Northgate Sx3, Agresso and Active Directory are not formally, proactively, and routinely reviewed. This condition poses the following risk to the Council: • Without formal, proactive, and routine reviews of security event logs, inappropriate and anomalous security activity (e.g., repeated invalid login attempts, activity violating information security policies) may not identified and/or addressed in a timely manner.	• Given the criticality of data accessible through Northgate Sx3, Agresso and Active Directory, logs of information security events (i.e., login activity, unauthorised access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.

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Internal controls – review of issues raised in prior year

We reported back to Audit and Risk Committee the status of action against our 2015/16 recommendation in our Audit Plan, which was issued in March 2017. The issues below are those that required further follow up as part of our audit.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	• We recommended to the Council that a procedure is implemented to ensure that a reconciliation is performed between the payroll system and the general ledger as part of their monthly reconciliation processes.	• There has been a monthly sign off of this reconciliation during the year and the year end reconciliation was provided as part of evidence for financial statements audit purposes and agreement of the payroll to the general ledger.
2.	✓	• We recommend that the Council investigate the reporting function of its fixed asset register system to solve the issues that have led to the reconciling differences between the register and the general ledger this year.	• The Council has identified and addressed the problems arising. Outputs from the fixed asset register for 2016/17 were consistent and no reconciling differences were identified.
3.	✓	• We recommend that the Finance Team seek a greater involvement in the valuation process such that they become the driving force behind what valuations are undertaken and by when.	• There have been no delays this year in respect of the valuation team. Corporate Landlord have approached us for assistance in making sure that what they are providing to finance is appropriate and timely. We will continue to work with the Council over the coming year to further improve the process as timely valuations will become even more critical wit the forthcoming earlier sign off of 31 July 2018.
4.	✓	• We recommend that the Director of Governance reiterate to all Members the importance of keeping their register of interests up to date, not just as an annual process, but in real time as their interests change during the year.	• This year we identified no differences between the declarations made on the register of interests and our comparison to Companies House. We therefore concluded that the register of interests was complete and the action from this recommendation is complete.

Assessment
✓ Action completed
X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed 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.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	**Property, Plant and Equipment** A number of differences were identified when we compared the valuer's report to the revaluation adjustments that were entered on the fixed asset register. The cost is overstated by £4,343k and accumulated depreciation overstated by £788k giving a net over statement of £3,555k.	(3,555)	(3,555)	(3,555)
2	**Cash Flow Statement** A number of errors were identified in the cash flow statement: Adjustment for non-cash movements overstated by £2.3m Purchase of property, plant and equipment, investment property and intangible assets was overstated by £2.4m Cash receipts of short and long term borrowing was understated by £3.1m due to the inclusion of repayment of PFI and finance leases which should have been included on a separate line. Repayments of short and long term borrowing was overstated by £0.8m. These items have now been adjusted in the final set of financial statements.	-	-	-
	Overall impact	**(3,555)**	**(3,555)**	**(3,555)**

Unadjusted misstatements

The table below provides details of adjustments identified during the 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	Balance Sheet £'000	Reason for not adjusting
1	**Council Dwellings** The district valuer has provided a beacon valuation for Council Dwellings. When extrapolated across the population of total Council Dwellings this results in an increase in value of £7.5m. This has not been adjusted for as it is not considered to be material as it only represents a 1.09% change in value.		7,525	Not material
2	Highfield and Penns School PFI liability is £1.72m lower than our estimate.		(1,720)	Not material
3	All of the PFI liability within the balance sheet is shown as a non-current liability. Part of the liability should be included within current liabilities.		(3,160) 3,160	Not material and nil impact
	Overall impact		**£5,805**	

Impact of uncorrected misstatements in the prior year

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting in prior year	Commentary in relation to uncorrected misstatement and its impact on current year
1	A desktop valuation was performed by the Council's valuers to provide assurance that the carrying value as at 31 March 2016 was not materially misstated. As a result of this the carrying value at 31 March 2016 is estimated to be understated in the range of £1.8m to £3.5m.		3,475	Not material	Issue superseded by the valuations undertaken in respect of the year ended 31 March 2017.
2	The valuation of Council dwellings was carried out at 1 April 2015. As a result the Council has assessed whether there have been changes to the value of the housing dwellings during 2015/16. The Council estimate that there has been an increase in value of £4.1m in the year.		4,100	Not material	Issue superseded by the valuations undertaken in respect of the year ended 31 March 2017
3	All of the PFI liability within the balance sheet is shown as a non-current liability. Part of the liability should be included within current liabilities.		(1,900) 1,900	Not material and nil impact	This is a disclosure item only and therefore has net nil impact.
4	Highfield and Penn Fields schools PFI – the Council's PFI liability is £1.78m understated compared to our audit estimate.		(1,800)	Not material	Issue superseded by our consideration of the liability in current year.

Impact of uncorrected misstatements in the prior year

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting in prior year	Commentary in relation to uncorrected misstatement and its impact on current year
5	The Council have identified an error within the Collection Fund Adjustment Account of £1.5m. Creditors is overstated in the range of £0.2m to £0.9m in respect of the Collection Fund. Debtors are understated by £0.5m to £1.2m in respect of the Collection Fund.		(1,500) 0,900 1,200	Not material Not material Not material	This issue has been addressed through a prior period adjustment identified by the Council.
6	The Council have been prudent in their equal pay provision and consequently £4.3m of the provision is a balancing figure with no supporting documentation	(4,300)	4,300	Not material	This issue has been addressed by the Council in its revision of the provision balance for the current year which stands at £2.5m as at 31 March 2017.
7	Academy school assets We identified that the value of property, plant and equipment at 1 April 2016 is overstated by £2,864k due to schools converting to Academy status, which had not been disposed of.	2,529	(2,529)	Not material	This issue was addressed by the Council by disposing of the assets within 2016/17 and therefore the balance as at 31 March 2017 is correctly stated.
	Overall impact	**(1,771)**	**8,146**		

Misclassifications 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.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	-	Debt	Various figures in the narrative report have been updated to ensure they are consistent with the figures in the financial statements and notes.
2	Disclosure	1,000	Income	There was a £1.000k difference identified between Other Comprehensive Income and the revaluation reserve in respect of gain on revaluation of non-current assets.
3	Disclosure	-	Note 11 Participation in Pension Schemes	The Council contributions to the Teachers' Pension Scheme were incorrectly stated as £3.8m in 2016/17 and 2015/16 but should have been £6.3m for 2016/17 and £6.9m for 2015/16.
4	Disclosure	1,000	Housing Revenue Account	The deficit on provision of services for the Housing Revenue Account does not agree to the Movement In Reserves Statement. The deficit is understated by £1,000k in the Housing Revenue Account.
5	Disclosure	7	Leases	A difference of £7.5k has been identified in relation to one of the leases selected for testing between the liability per the lease and the liability per the lease disclosure. Amount is highly trivial and therefore it has not been amended for. However, we identified a number of issues during our lease testing whereby the Council could not locate the original lease agreement or rent review agreement. We recommend that the Council undertake a review of leases to ensure they have all appropriate documentation available to them. For testing purposes we were able to perform alternative procedures and are therefore satisfied that the accounts are not materially misstated in this regard, but nevertheless a risk remains with regard to the management of leases.
6	Disclosure	-	Expenditure Funding Analysis	The Code requires a disclose of income and expenditure by nature.
7	Disclosure	Various	-	We identified a number of errors in the Cash Flow Statement and related notes. The errors in the Statement ranged between £0.8m and £3.1m and the supporting note (16A) was overstated by £74.1m due to the omission of the revaluation movement on Council Dwellings. The cash flow statement has now been corrected in the final accounts.

Misclassifications and disclosure changes (continued)

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.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
8	Disclosure	-	-	The draft accounts did not include details of accounting changes issued but not yet adopted. This disclosure is required by the CIPFA Code.
9	Disclosure	-	-	The disclosure of the number of other employees, excluding Senior Officers, whose remuneration for the year exceeded £50k, did not include data from 11 schools whose payroll was prepared by external providers.
10	Disclosure	-	-	We have made a number of amendments in conjunction with Council Officers to improve the presentation and disclosure of the financial statements.

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 £673k) 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	**Balance sheet** Balance sheet liability – • Highfield and Penn Fields schools – the Council's liability is £1.72m lower than the audit estimate. £0.74m 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 £1.13m 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 – no issues to report on the overall liability: however £1.29m 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 **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 £1.0m to £1.2m lower on the individual periods disclosed within the note. In total for Bentley Bridge the disclosure is £3.9m lower than the audit estimate. For the waste disposal facility, total future service costs are higher than the audit estimate by £0.80m.	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.

PFI scheme disclosures continued

Issue	Commentary	Recommendations
Disclosures	**Future interest costs** For St Matthias and Heath Park, the figures are in line with the audit estimate in respect of service costs and total interest. In terms of each period for interest, figures are different from the audit estimate in the range of £2.28m higher to £1.40m lower on the individual periods disclosed within the note. For Bentley Bridge the total interest costs disclosed are different from the audit estimate in the range of £0.00m to £1.25m higher on the individual periods disclosed within the note. In total for Bentley Bridge the disclosure is £4.08m higher than the audit estimate. For the waste disposal facility, total future interest costs are lower than the audit estimate by £0.79m. **Repayment of liability** For St Matthias and Heath Park, the amounts disclosed are different from the audit estimate in the range of £1.4m higher to £2.6m lower on the individual periods disclosed within the note. The total liability disclosed is within the audit estimate range. **Total unitary payments** 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's disclosure states that the future payments disclosures are based on the RPI built into the operators financial close model, this disclosure could be improved to disclose the impact if actual RPI differs from this.	As per previous page.

Section 3: Value for Money

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that 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.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. 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.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in January and February 2017 and identified a number of 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 March 2017.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03, as follows:

- Medium Term Financial Resilience
- Children's Social Care
- Combined Authority
- Worklessness
- Strategic Asset Management

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.

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- Children’s Social Care
- Combined Authority
- Worklessness
- Strategic Asset Management

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.

Significant qualitative aspects

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. In arriving at our conclusion, our main considerations were:

- What arrangements the Council has in place for identifying, agreeing and monitoring its forward sustainability and operational plans, and communicating key findings to the Cabinet and Audit Committee.
- What was the result of the recent OFSTED inspection in respect of the Council's Children's Social Care Services
- What arrangements does the Council have in place to mitigate the risk of ineffective working relationships and to identify, manage and monitor risks in relation to the Combined Authority
- What plans are being put in place to improve the performance of the schools during the year and for continuing to improve the levels of educational achievement for the City's young people going forward and its impact on the levels of worklessness in the City
- What actions have been taken against the risks identified in the 2014-15 Annual Governance Statement in respect of Strategic Asset Management, and whether they are embedded and have been effective.

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 later in this section.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix B.

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.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Key findings

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

Significant risk	Work to address	Findings and conclusions
Medium Term Financial Resilience The Council has historically managed its finances well, achieving financial targets and is on course to achieve its 2016/17 budget. Nevertheless, the scale and pace of change for local government will affect future projections and it is important the Council is on track to identify and produce savings required to deliver balanced budgets in 2018/19 and 2019/20.	We reviewed the Council's Medium Term Financial Strategy and financial monitoring reports and assess the assumptions used.	The Council's 2016/17 outturn position, as noted on page 8 of the Narrative Report of the financial statements, is a net underspend of £0.3 million, which comprises achievement of a savings target of £26.4 million for the year. Meeting with key officers and review of the 2017/18 budget has established that the Council has firm plans in place for 2017/18. To date there have been some adverse variances against budget and the Council has rated itself as "amber". The areas of overspend at this stage are in Waste of £1,700k and adult services, where there is a net forecast overspend of £841k. The bulk of this is due to Learning Disabilities Care Purchasing overspend totalling £904k which has arisen due to increased demand for support. We note that adult's services are undergoing transformation and each care package is being reviewed on a case-by-case basis to ensure that the most appropriate package has been offered. There are some underspends across the rest of the Council which will offset some of the remaining overspend but not all. The directorates have been given direction to identify further savings. The overall projected outturn for the General Fund is an overspend in the region of £2,100k. The Public Health overspend is being funded by use of £1,700k from the Budget Contingency Reserve. We are satisfied that the Council is developing plans for 2018/19 and 2019/20. This includes holding "Review, Challenge and Progress" to ensure people are challenged on their plans appropriately to ensure they hold up to scrutiny and are robust.

Key findings

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

Significant risk	Work to address	Findings and conclusions
Medium Term Financial Resilience **(continued)**	(continued)	Of the £14,800k savings required for 2018/19, £12,500k have been identified. We note however that £7,500k of these savings are one-off and therefore will not be available to meet the savings gap in relation to 2019/20. Work continues to identify additional recurring budget opportunities that will work towards the remaining budget challenge to be delivered in 2019/20. The remaining cumulative budget challenge to be identified by 2019/20 stands at £15,500k. 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. **On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place to ensure it plans finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.**
Ofsted inspection of children's services We are aware that the Council's children's service is currently the subject of an Ofsted inspection (as at the time of writing). Until such time as Ofsted confirms that adequate arrangements are in place, this could potentially be a significant risk to the Council's arrangements under the Value for Money conclusion.	We reviewed the report from Ofsted as it became available and take these into account in forming our conclusion	Looked After Children continues to be an area of focus with the overall aim of reducing the number of children in care. These numbers have stabilised during 2016-17. Work is being undertaken to look at those in receipt of the services on a case-by-case basis to ensure that the most appropriate care package is in place and that care proceedings aren't being inappropriately initiated. We have considered the OFSTED Children's services report published on 31 March 2017. The report considered services for children in need of help and protection, children looked after and care leavers, and the Local Safeguarding Children Board. The report graded children's services in Wolverhampton as 'good'.

Key findings

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

Significant risk	Work to address	Findings and conclusions
Ofsted inspection of children's services (continued)	(continued)	Ratings across the sub-sections were: 1. Children who need help and protection – Requires Improvement 2. Children looked after and achieving permanence (comprising adoption performance and experiences and progress of care leavers) – Good 3. Leadership, management and governance – Good **On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of sound governance, and planning, organising and developing the workforce effectively to deliver strategic priorities.**
Combined Authority The Combined Authority came into existence on 17 June 2016. The City of Wolverhampton Council is a constituent authority and therefore this is a major strategic partnership. There is uncertainty as to what the impact of the Mayor will be. The Council's 2015/16 Annual Governance Statement noted that the Council needs to work effectively with its partners including other local authorities and LEPs to ensure that the CA is a success and that it benefits the City of Wolverhampton.	We reviewed the arrangements the Council has in place to mitigate the risk of ineffective working relationships and to establish how the Council is identifying, managing and monitoring risks in relation to the Combined Authority.	We found that the Council has: • adequately assessed the risks arising from the creation of West Midlands Combined Authority (WMCA) and has put arrangements in place to mitigate and manage those risks • taken advantage of the opportunities offered by the Devolution Deal by participating in the business rates retention pilot • seconded key officers to WMCA, thus ensuring that Wolverhampton's voice is heard within the highest levels of that body. The Council's Chief Executive is Monitoring Officer and Clerk to the Combined Authority and therefore has had a major role in ensuring it is driven forward and is successful. The previous Director of Finance has also acted as the interim Director of Finance to the WMCA. These roles have ensured that the Council have been kept fully informed of progress at the WMCA. The Council is mapping roles within Wolverhampton to those in the WMCA to ensure appropriate co-ordination of work. To further improve links with the WMCA the Council have created a new role within the Council: Director of Public Sector Service Reform. A key objective of the role will be to ensure that links are in place with the Combined Authority.

Key findings

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

Significant risk	Work to address	Findings and conclusions
Combined Authority (continued)	(continued)	The importance of this area is recognised by the Council as it features on its risk register: *Maximising Benefits from West Midlands Combined Authority*. Actions are being taken are on-going and are focussed on ensuring that the work of the Combined Authority is recognised and communicated appropriately to officers and members of the Council. The proposed overall investment package of the WMCA is approximately £8bn and was dependent on a number factors, including raising a levy on business rates as well as a Council Tax precept. Elected mayors were to have the power to raise an additional 2% 'levy' on business rates and this power was to have been introduced by the *Local Government Finance Bill 2016-17*. However, this Bill did not feature in the post-election Queen's Speech. Therefore it is no longer certain that such a levy can be expected. There has been no formal request from the Combined Authority to the Council in respect of any contribution costs, aside from the cost of being a member, which is an annual fee of £25k. Whilst we are satisfied that that finance risks are being adequately identified and considered, Members should be aware that funding for a number of the schemes in WMCA's Investment Plan are not certain. In particular, the £36.5 million annual revenue funding from the Devolution Deal is subject to a jointly agreed 5-yearly gateway assessment process to confirm the investment has contributed to economic growth. The Council will need to consider the finances of the WMCA on a regular basis and any risks this brings to the authority. **On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place to ensure it works effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.**

Key findings

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

Significant risk	Work to address	Findings and conclusions
Worklessness The Council highlights in its risks register that if the city residents do not have the appropriate skills that employers require then they will be unable to access the jobs and opportunities. This will impact on high rates of unemployment and the demand on Council services.	We reviewed the Council's progress against the risk noted in their risk register in relation to Skills for Work. Through discussion with officers and review of relevant documents we assessed whether actions taken have been and are being effective.	The Council has taken a number of positive actions to reduce worklessness in Wolverhampton. We have documented some of the key activities below. In 2015 the Council instigated an Independent Skills Commission led by leader of the Council and Chaired by Professor Tony Travers, Director for British Government at the London Schools of Economics, to look at Skills & Employment and the Council's business growth plans. A clear plan to address worklessness was developed as a result of the Commission.. In the Summer of 2016 a Skills & Employment Board was set up to steer the work being undertaken. There were three work programmes within the plan for 2016/17: • City Workplace – focus on workforce development • City Workbox – focus on people. Workbox is a website that was launched in May to address the finding from the Commission in relation to fragmented provision. It will host a multitude of providers and employers offering advice and guidance online being therefore accessible by all. • Learning City – creating a city of learning (physical infrastructure) which also looks at the broader curriculum offer In addition to these workstreams the Council is developing an economic evidence base in conjunction with City-REDI, a research institute based at the University of Birmingham. Amongst other things, it will include a "Working and Inclusive City" aspect, which will report on the area's Employment and Economic Activity, Worklessness and Participation in Education and Training. Established in January 2017, Wolves at Work is a £3 million joint investment between the Council and DWP which aims to move 3,000 residents into sustained employment over 3 years. The project employs work coaches to work with local employers and residents to provide intensive support to maximise local recruitment and address unemployment.

Key findings

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

Significant risk	Work to address	Findings and conclusions
Worklessness (continued)	(continued)	As a headline figure, in 2011, the Council's City Strategy set out a number of targets, one of which was to achieve an employment rate of at least 70% by 2026. In 2011 the baseline data was 61.3%: this has increased to 64.4% based on latest ONS data (2015). The actions taken by the Council and others have begun to impact and the unemployment rate has fallen from 11.3% in 2014/5 to 7.6% in 2016/17. While we note this improvement the national average unemployment rate per the Office of National Statistics is 4.4%. In comparison the rates for Wolverhampton have remained higher than the national average over the last 5 years. Similarly, only two of the other West Midlands Authorities have unemployment rates greater than Wolverhampton. Continued action is needed by the Council and its partners in this area. While further action is needed we are satisfied with the arrangements put in place by the Council. **On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place to ensure it plans finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making, as well as working with third parties effectively to support the delivery of strategic priorities.**
Strategic Asset Management 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.	We reviewed the Council's progress against the risk noted in their 2015/16 Annual Governance Statement in relation to Strategic Asset Management. Through discussion with officers and review of relevant documents we assessed whether these actions have been undertaken and are effective.	The Council has made some progress in developing Strategic Asset Management. In particular, and Asset Transformation Programme commenced in November 2016. The programme has four workstreams: • Strategic Asset Plan: to develop a clear Strategic Asset Plan • Asset Challenge: to review what buildings are being used for and what is needed. • Data Management: to improve the data available to the Council to aid decision making

Key findings

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

Significant risk	Work to address	Findings and conclusions
Strategic Asset Management (continued) This process was intended to further embed the Strategic Asset Management function and was intended to ultimately establish a Strategic Asset Management Plan. It was noted in the 2015/16 Annual Governance Statement that a Strategic Asset Plan had yet to be developed.	(continued)	• Commercial Portfolio: to develop a team and strategy to develop and grow the current portfolio. In addition, the Council are continuing to progress the Corporate Landlord model. A recent external review has confirmed that this is an appropriate model but has also made a number of recommendations to strengthen the model. CIPFA are supporting the development of the Strategic Asset Plan and the implementation of the Corporate Landlord model. Their work is programmed for completion by November 2017. It is clear that progress in this area has not happened as quickly as the Council would have originally anticipated or wanted. However, this has not significantly impacted on service delivery at the Council and we are satisfied from our review, that the Council is being proactive in developing better Asset Management. Continued work and focus is needed in this area. **On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for managing and utilising assets effectively to support the delivery of strategic priorities**.

Section 4: Other statutory powers and duties

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

	Issue	Commentary
1.	**Public interest report**	• We have not identified any matters that would require a public interest report to be issued
2.	**Written recommendations**	• We have not made any written recommendations that the Group is required to respond to publicly
3.	**Application to the court for a declaration that an item of account is contrary to law**	• We have not used this duty
4.	**Issue of an advisory notice**	• We have not used this duty
5.	**Application for judicial review**	• We have not used this duty

Section 5: Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services during the 2016/17 financial year

Fees

	Proposed fee £	Final fee £
Council audit	189,428	189,428
Grant certification	19,128	19,128
Total audit fees (excluding VAT)	**208,556**	**208,556**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

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 Auditing Practices Board's Ethical Standards and confirm that we 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 Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table below summarises all non-audit services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• Audit of Subsidiary Company Yoo Recruit	15,000
• CASHH grant	2,115
Total Audit related services	**17,115**
Non-audit services	
• Income generation	61,000
• Opportunity West Midlands	11,000
• Utility bills consultancy	13,000
Total Non-audit services	**85,000**

Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
During the financial year 2016/17 we were approached by the Council to audit their wholly-owned subsidiary, Yoo Recruit Limited	Yoo Recruit limited	£15,000	No	There is no contingent element to this fee, i.e. the amount of fee is not dependent on any successful outcome. The fee for this work is small in comparison to the total fee for the audit (7%) and in particular Grant Thornton UK's turnover overall. Our scope of work did not involve making decisions on behalf of the Council's management. The work was carried out by a separate team, thus safeguarding against the familiarity threat.
CASHH grant	City of Wolverhampton Council	£2,115		
Income generation	City of Wolverhampton Council	£61,000	No	
Opportunity West Midlands	City of Wolverhampton Council	£11,000	No	This was a training programme given to three delegates from the City of Wolverhampton Council as part of a wider West Midlands cohort. The training being given was to raise aware ness of alternative delivery models and to assist officers in making the step up from a more operational to strategic role. Therefore not considered to impact on our financial statements opinion or our value for money conclusion.
Utility bills consultancy	City of Wolverhampton Council	£13,000	No	This involved a contingent fee, but this was capped at a certain level. Our scope of work did not involve making decisions on behalf of the Council's management. The work was carried out by a separate team, thus safeguarding against the familiarity threat.

Section 6: Communication of audit matters

Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

Appendices

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1.	**Lack of Formal Reviews of Information Security Policies and Procedures** Information security policies and procedures should be reviewed at planned intervals (preferably annually) or when significant changes occur to ensure for their continuing suitability, adequacy and effectiveness.		Information security policies and procedures are subject to review at planned intervals or when significant changes occur. Key changes being considered during 2017 are the implications of the General Data Protection Regulations that come into force in May 2018 and 'New Ways of Working' currently being adopted by the Council that will consider how information is stored, home and mobile working and changes to associated information security policies including 'The Personal Use of Council Computer Equipment and Access to Social Media Policy'. Policy reviews, along with associated employee communications and training are subject to oversight, endorsement and approval by the Information Governance Board and as required by the Strategic Executive Board and Cabinet (Resources) Panel.	Martin Eades 25 May 2018
2.	**Northgate Sx3 password complexity enforcement** Password complexity should be consistently enforced within Northgate Sx3.		The Northgate system can only be accessed after a successful log in to the corporate network. Access to Northgate is therefore always protected by the security features of the corporate network. A user's password for Northgate is not connected to their corporate network logon and permits only 3 attempts at logging in before a user account is locked. This limits users to just 3 attempts at "guessing" a password. There is no automated unlock facility and users have to make a phone call to the revenues and benefits systems team to get their Northgate account unlocked. Taking the above points into consideration, we consider that the risk of successful access by password cracking or guessing is extremely small.	Jayne Owens 31 December 2017

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

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
2.	**Northgate Sx3 password complexity enforcement** (continued)		Northgate's security guide details additional password complexity features which are available but warns that including these may have a detrimental impact on system functionality. We will consult Northgate about changing the password complexity and will carry out some testing to investigate the impacts of password complexity features on system activities. We will only increase the complexity of passwords if we find that this can be achieved without affecting system functionality.	
3.	**Change Management Policies and Procedures** Documented policies and procedures addressing change management processes and related control requirements (such as change testing, approvals, and documentation requirements) within Northgate Sx3, Agresso should be reviewed, updated and formally approved by the appropriate members of the organisation. These should be communicated to the relevant personnel responsible for implementing them and/or abiding by them. Furthermore, training should be provided to ensure on-going compliance where appropriate. An individual should be assigned the responsibility for ensuring that the documentation is reviewed on a periodic basis along with effective version control.		The change management process within ICT is currently under review, however, the current process is followed for any technical infrastructure / architecture changes to all ICT supported solutions (which includes Northgate Sx3 and Agresso). This change management process review is expected to take approximately 6 months and the outcome will be a robust, more automated change management process. Both of the system owners of Northgate Sx3 and Agresso have their own policies and processes to manage any application changes and these are followed rigorously in order to avoid errors or the creation of risks and issues.	Paul Dunlavey 31 October 2017

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

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
4.	**Shared generic accounts used for Northgate database maintenance** All interactive security administrator accounts should be aligned with one named individual.		The only employees with access these accounts are those with Unix server access who know the password – I.e. 1 server engineer and 1 domain architect. This is the Northgate recommended model and moving away from this recommendation contains more risk than having 2 people with access due to the way that everything is embedded within the infrastructure. The risks identified may be valid when there are numerous employees who can gain access but when there are only 2 employees accountability is very easy to determine. We have had no issues in the 11 years plus that we've had Northgate products and, given the way we have access to Unix locked down, we don't believe that the risk raised necessitates any change to the current model and that the risk raised has a very low probability score due to ease of identification of change owner due to it being one of two in any circumstance.	N/A
5.	**Proactive reviews of logical access within Agresso and Active Directory** It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Agresso and Active Directory. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).		The Business World (Agresso) Support Team have sent out a report to all line managers detailing the internal Business World access held by their direct reports. The purpose is to review and report back any discrepancies between the roles held by team members and the access granted, for the Support Team to amend. The turnaround time requested is 3 weeks. This process will be repeated every 6 months but may move to a quarterly exercise if it can be automated. Active Directory is being upgraded within this financial year and part of that exercise will involve running checks on AD credentials. AD actually uses Agresso as its source system so any changes made in Agresso as a result of introducing the above process will also be reflected in Active Directory.	Emma Bland 13 October 2017 Paul Dunlavey 31 October 2017

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

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
6.	**Reviews of Information Security logs created by Northgate Sx3, Agresso and Active Directory** Given the criticality of data accessible through Northgate Sx3, Agresso and Active Directory, logs of information security events (i.e., login activity, unauthorised access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.		The council is in the process of adopting Microsoft's "Advanced Threat Analytics" (ATA) tool which will analyse all logs that are requested of it and will highlight any perceived inappropriate or anomalous activity. As the product increases its trend learning over time it will also be able to proactively monitor access attempts and block any attempts that appear to be inappropriate or anomalous. A team of security experts will be tasked with (i) analysing the reactive reports and (ii) releasing blocked attempts that are genuine access requests. Presently, prior to the implementation of ATA, logs are reviewed if incidents (of any nature) occur and any erroneous activity is examined and reported.	Paul Dunlavey 31 October 2017

Controls

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

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
7.	**Investment Properties** The Council has a procedure of revaluing all assets with a value above £1m, including investment properties. The Code requires that after initial recognition, Investment Property needs to be measured at fair value: the fair value of an investment property shall reflect market conditions at the end of the reporting period and therefore to comply with the Code the Council should be seeking valuations of Investment Properties as at the end of each reporting period. We recommend that Council either perform a formal exercise each year to either ensure that all investment properties reflect market value as at the year end or otherwise are able to demonstrate that the value at which they are carried in the accounts it not materially misstated		All investment properties will be revalued on an annual basis going forwards.	This will be implemented for the 2017/18 valuations Responsibility: Emma Bland, Finance Business Partner
8.	**Accruals** During our cut-off testing we identified that £2.4k of items from a sample of £38k had not been accounted for in the correct period. By extrapolating this projected error across the population we identified that the potential error could be in the magnitude of £1.9 million. We are satisfied that this would not present a material misstatement and therefore no proposed adjustment has been raised. This issue has arisen due to a policy put in place by the Council of not exhaustively accruing balances less than £10k. We commend the Council for seeking ways in which to expedite the closedown process. However, we recommend that the Council revisit their policy and consider whether in light of the above findings they are content that a £10k threshold is appropriate.		This matter only impacts manual accruals as all system accruals will be included in the accounts irrespective of the value. Work is ongoing to maximise the use of Agresso to post system accruals which will minimise manual accruals. We don't anticipate that this policy will have a material impact on the accounts but will continue to monitor the value of amounts not accrued.	This will be reviewed during the 2017/18 accounts closedown. Responsibility: Emma Bland, Finance Business Partner

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

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
9.	**Valuation of pension fund liability** The Council did not inform the actuary of the number of redundancies to have taken place during the 2016/17 financial year and therefore the actuary was unable to take this into account in their valuation of the pension fund net liability. The actuary has since confirmed that had he known the information, the difference it would have made to the liability would have been to increase it by £161k which is clearly trivial, and therefore no adjustment has been proposed in this regard. We have raised a recommendation to the Council to ensure that the actuary is made aware of any information pertinent to their calculations on a timely basis.		Noted and will be implemented.	This will be implemented during the 2017/18 valuation. Responsibility: Emma Bland, Finance Business Partner
10.	**Management of leases** We identified a number of issues during our lease testing whereby the Council in some case could not locate the original lease agreement and in other cases could not locate the rent review agreement. For testing purposes we were able to perform alternative procedures and are therefore satisfied that the accounts are not materially misstated in this regard, but nevertheless a risk remains with regard to the management of leases. We recommend that the Council undertake a review of leases to ensure they have all appropriate documentation available to them.		In the last 18 months, a large number of paper based files have been scanned which has enabled the Estates Team to quickly find information relating to leases. There are some instances where historical files cannot be located, but the Estates Team together with Legal Services are in the process of reviewing all leases (rent reviews, lease renewals and terminations). This will result in accurate electronic data management of future leases.	This work is ongoing however it is being prioritised based on rent review and lease renewal dates. It is envisaged that it will take until the end of 2017/18 financial year until all lease information is captured and valid. Responsibility: Angela Ward, Estates Manager

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

B: Audit opinion

We anticipate we will provide the Group with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY OF WOLVERHAMPTON COUNCIL

We have audited the financial statements of City of Wolverhampton Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise , the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Group and Council Balance Sheets, the Group and Council Movement in Reserves Statements,
the Council and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Balance Statement, the Collection Fund Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:
• the financial statements present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
• the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:
• in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
• we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or

• we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
• we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

[Signature]

MARK STOCKS
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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[Date]

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