Grant Thornton

Audit Findings

Year ending 31 March 2018

City of Wolverhampton Council

23 July 2018

Contents

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Appendices

Headlines

This table summarises the key issues arising from the statutory audit 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 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income for the year, and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was undertaken on site during June and July. Our findings are summarised on pages 4 to 17. We have identified three adjustments to the financial statements, one of which has resulted in a change to the Council's reported net expenditure position from £27.6 million net expenditure to £82.0 million net income. Audit adjustments are detailed in Appendix C. We have also raised a recommendation for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Risk Committee meeting on 23 July 2018, as detailed in Appendix E. These outstanding items are listed overleaf. We will update the Audit and Risk Committee verbally in respect of progress against these outstanding items at the meeting on 23 July. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	We have completed our risk based review of the Council's value for money arrangements. We have concluded that the City of Wolverhampton Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E and subject to receipt of outstanding information as shown on page 5. Our findings are summarised on pages 18 to 22.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties. We do not expect to be able to certify the conclusion of the audit yet as we do not anticipate having completed our work on the Council's Whole of Government Accounts return. The deadline for this submission is 31 August 2018. Additionally, we are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. As the Pension Fund has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements.

Summary

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that no components required a comprehensive audit response but a targeted approach was required for Wolverhampton Homes Limited.
- An evaluation of the Council's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries listed on page 5 being resolved satisfactorily, we anticipate issuing an unqualified audit opinion following the Audit and Risk Management Committee meeting on 23 July 2018, as detailed in Appendix E.

Acknowledgements

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

Status of the audit

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

- completion of our debtors testing
- agreement of the pension guarantee disclosures
- consideration of the work of the Council's valuers
- review of the quarter 1 outturn report to identify progress against 18/19 savings targets
- final manager engagement lead review of all of the above once completed

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

Status

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

Summary

Our approach to materiality

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

Our assessment of the value of materiality, performance materiality and trivial matters has been adjusted to reflect the gross expenditure in the draft financial statements as at 31 March 2018. For the purposes of our audit plan, they were based on the gross expenditure as at 31 March 2017. We detail in the table below our assessment of materiality for City of Wolverhampton Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	15,503,000	15,426,000	We determined materiality for the audit of the Council's financial statements as a whole to be £3,639,000, which is 1.8% of the Councils gross operating expenses. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.
Performance materiality	11,627,000	11,570,000	We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the financial statements. • Our consideration of performance materiality is based upon a number of factors: • We have not historically identified significant control deficiencies as a result of our audit work • We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment • There has not historically been a large number or significant misstatements arising as a result of the financial statements audits at the Council • Senior management and key reporting personnel in the finance function has remained stable from the prior year audit
Trivial matters	775,150	£771,300	We determined the threshold at which we will communicate misstatements to the Audit and Risk Committee to be £186,000, which is 5% of materiality.
Materiality for specific transactions, balances or disclosures	Remuneration of senior officers: £100,000		In accordance with ISA320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) 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.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the 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 • The culture and ethical frameworks of local authorities, including City of Wolverhampton Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for City of Wolverhampton Council.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** We have: • gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtained a full listing of journal entries, identify and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions. We have no findings to report or issues to bring to your attention in respect of this risk.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment** The Council revalues all assets over £1m on an annual basis with the remainder being revalued on a cyclical basis or as considered necessary in order to ensure that all assets are revalued at least every 5 years, in line with the Code requirements. This is to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	**Auditor commentary** We are in the process of: • reviewing management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • considering the competence, expertise and objectivity of any management experts used. • discussing with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • reviewing and challenging the information used by the valuer to ensure it is robust and consistent with our understanding. • testing revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not. We have identified that Council Dwellings are understated by £109.6m. The CIPFA Code requires that the fair value of housing stock held for social housing purposes reflects the Existing Use Value for Social Housing. This was 34% when the previous full valuation was carried out in April 2015; however the percentage increased to 40% from 2016/17. When the percentage increase between the April 2015 valuation and the March 2018 valuation was applied to the 2015 valuation, it was not updated to reflect the change in social housing factor from 34% to 40%. This resulted in a £109.6m understatement of Council Dwellings. Management has adjusted the financial statements to correct this error.
4	**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 identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**Auditor commentary** We have: • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out • undertaken procedures to confirm the reasonableness of the actuarial assumptions made. • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary We have no issues to report in respect of our work against this risk.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
7	**Employee remuneration** Payroll expenditure represents a significant percentage of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	**Auditor commentary** We have: • evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness; • gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls; • obtained year-end payroll reconciliation and ensured the amount in the accounts can be reconciled to ledger and through to payroll reports, investigating significant adjusting items if applicable; • agreed payroll related accruals to supporting documents and review any estimates for reasonableness; and • reviewed Councillors' allowances, agreeing a sample back to supporting documentation and ensuring the are in line with the Council's policy. The Expenditure and Income Analysed by Nature shown in Note 1D as presented to audit showed employee benefits expenses of £231.5m, other service expenses of £418.2m and fees and charges of £422.2m. It was identified that this split was incorrect. This has been corrected to reflect the appropriate split. This does not impact the Comprehensive Income and Expenditure Statement as it is a disclosure item only. We have nothing further to report in respect of our work against this risk.
8	**Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	**Auditor commentary** We have: • evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls; • tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period; and • tested a sample of creditors to supporting documentation to ensure that they are fairly stated. We have nothing to bring to your attention in respect of our work against this risk.

Other matters - **Going concern**

Our responsibility

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

Going concern commentary

Management's assessment process	Auditor commentary
Preparation of income and expenditure budgets for the year ended 31 March 2019 and the associated cash flow forecast and application of assumptions and judgements underpinning the cashflow forecasts	• Going Concern is defined in the glossary of the Council's financial statements as "the concept that the local authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.' • The Council's financial statements are prepared on going concern basis on the grounds that budgets are in place and are being measured and managed to ensure that liabilities can be met as and when they fall due. • The Council acknowledges however that it faces ongoing challenges to find recurrent savings. The Annual Governance Statement notes that it is estimated that further savings of £19.5 million will need to be identified for 2019-2020. Council approved that work starts on developing budget reductions for 2019-2020 and that progress be reported to Cabinet in July 2018. • We have undertaken further work in relation to the risk of 'financial resilience', which includes the identification of savings, as part of our Value for Money conclusion. This is documented on pages 20 and 21.
Work performed	**Auditor commentary**
Detailed audit work performed on mgmts. assessment	• We have reviewed the budget for the year ending 31 March 2019 as well as the Council's progress in refreshing it's Medium Term Financial Strategy which will have an outlook to 20205. • We have compared income and expenditure forecasts to underlying information available and the current year results. • We have assessed the adequacy of disclosures in the financial statements relating to going concern and have concluded that appropriate disclosures have been made.

Significant matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary	
1	Significant events or transactions that occurred during the year	• The Council has a number of pension guarantees in place with partner organisations who are admitted to the West Midlands Pension Fund. During 2017-18 the Council has also provided a new pension guarantee and new financial guarantee to the City of Wolverhampton College. • We have discussed these proposals with finance staff prior to the guarantees being made, to ensure that the accounting treatment had been considered. • The Council prepared disclosures in relation to these guarantees for the draft financial statements and provide them to us for comment before our audit commenced.	**Auditor view** • We provided comments for the Council to consider on their proposed disclosures, which were taken into account in the revised disclosure in the draft financial statements. • As at the time of writing, and as noted on page 5, we are in the process of revisiting and testing the assumptions made in determining the accounting of these guarantees. This will determine that the conclusions drawn were still appropriate as at 31 March 2018.

Accounting policies

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 be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies continued

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 – Other provisions	We have considered the key estimates and judgements included in the accounts and note the following: **Valuations and revaluations** We have identified an understatement of the valuation of Council Dwellings totalling £109.6m as detailed on page 8 of this report. We are satisfied that this has been correctly adjusted in the final version of the financial statements. **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 pages14 and 15. **Pension fund net liability** Our work in respect of this estimate is reported on page 8.	Amber
Other critical policies	N/A	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.	Green

Assessment
- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

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 £771k) we are not required to report this. Where the Council's accounting estimate falls outside of this range this is reported below.

Issue	Commentary	Recommendations
Disclosures	**Note 10D – PFI liability** Liability classifications – • Highfield and Penn Fields schools – the Council's liability is £1.600m lower than the audit estimate. £0.912m 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 £1.363m should be classified as a current liability rather than a non-current liability as it falls due within 12 months from the balance sheet date • St Matthias and Heath Park – the Council's liability is £1.002m lower than the audit estimate. £1.338m should be classified as a current liability rather than a non-current liability, as it falls due within 12 months from the balance sheet date. • Bentley Bridge - no issues to report on the overall liability: however £209k should be classified as a current liability rather than a non-current liability, as it falls due within 12 months from the balance sheet date. This is trivial in and of itself, but reported, as it forms part of a bigger balance which is set out as an unadjusted misstatement at Appendix C. We note that in all instances above the balance sheet is showing the correct classification. The differences are identified are in the disclosure at Note 10D only. **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 £101k to £1.100m lower on the individual periods disclosed within the note. In total for Bentley Bridge the disclosure is £3.745m lower than the audit estimate.	The differences identified against our range of estimates for the PFI scheme have been discussed with the Council. Differences in each line of the disclosures have been detailed within the Commentary box. The total future payments disclosed for all PFI schemes are in line with the audit estimates. The differences are due to the way in which the indexation is allocated within the accounting models The Council have determined not to amend the financial statements in this regard. We have accepted the Council's estimate, as the degree of variation is not material, given the nature of the schemes and the basis of the estimate.

PFI scheme disclosures continued

Issue	Commentary	Recommendations
Disclosures	**Future payments for services continued** For Waste the total future service costs disclosed are different from the audit estimate in the range of £626k to £1.110m higher on the individual periods disclosed within the note. In total for Waste the disclosure is £1.736m higher than the audit estimate. **Future interest costs** St Matthias and Heath Park - In terms of each period for interest, figures are different from the audit estimate in the range of £2,341k higher to £1,438k lower on the individual periods disclosed within the note. In total the disclosure is £965k higher than the audit estimate. For Bentley Bridge the total interest costs disclosed are different from the audit estimate in the range of £117k - £1.225m higher on the individual periods disclosed within the note. In total for Bentley Bridge the disclosure is £3.939m higher than the audit estimate. For Highfields and Penn the total interest costs disclosed are different from the audit estimate in the range of £179k lower - £622k higher on the individual periods disclosed within the note. In total for Highfields and Penn the disclosure is £1.516m higher than the audit estimate. **Repayment of liability** St Matthias and Heath Park - The amounts disclosed are different from the audit estimate in the range of £1.386m higher to £2.320m lower on the individual periods disclosed within the note. The total liability disclosed is £1.003m lower than the audit estimate. Highfields and Penn – The amounts disclosed are different from the audit estimate in the range of £112k – 535k lower on the individual periods within the note. The total liability disclosed is £1.598m lower than the audit estimate.	As per previous page.

Total unitary payments

We note that the Council does not update its accounting models on an annual basis to reflect the actual unitary payment made and the impact of actual RPI. If the Council's models enable this to be done it would be good practice to model the impact on the future committed payments.

The Code does not state whether the details should specify an estimate of the cash amount that will actually be paid or an estimate based on prices at the Balance Sheet date. Council's are therefore free to choose which (or both) will be more informative. The Council'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.

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 been made aware of frauds identified during the year through Audit Services Counter Fraud Updates as reported to the Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed. We did note however, that the Council had disclosed that it owed £1.2m to Wolverhampton Homes Limited. This was triangulated with the information in the Wolverhampton Homes Limited accounts and determined that the figure that the Council actually owe £4.4m. This will be amended in the financial statements.
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 included in 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, banks, or borrows from. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
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 on page 26.

Other responsibilities under the Code

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

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500m we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. As at the time of writing we have not yet completed our work and as we note on page 3 and below, this is one of the reasons that we will be unable to certify the audit complete on issue of our audit opinion. The deadline for the submission of our work on WGA is 31 August 2018 and we do not anticipate any problems in meeting this deadline.
4	**Certification of the closure of the audit**	We do not expect to be able to certify the completion of the 2017/18 audit of City of Wolverhampton Council in our auditor's report, as detailed in Appendix E as we do not anticipate having completed our work on the Council's Whole of Government Accounts return. Additionally, we are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. As the Pension Fund has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements.

Value for Money

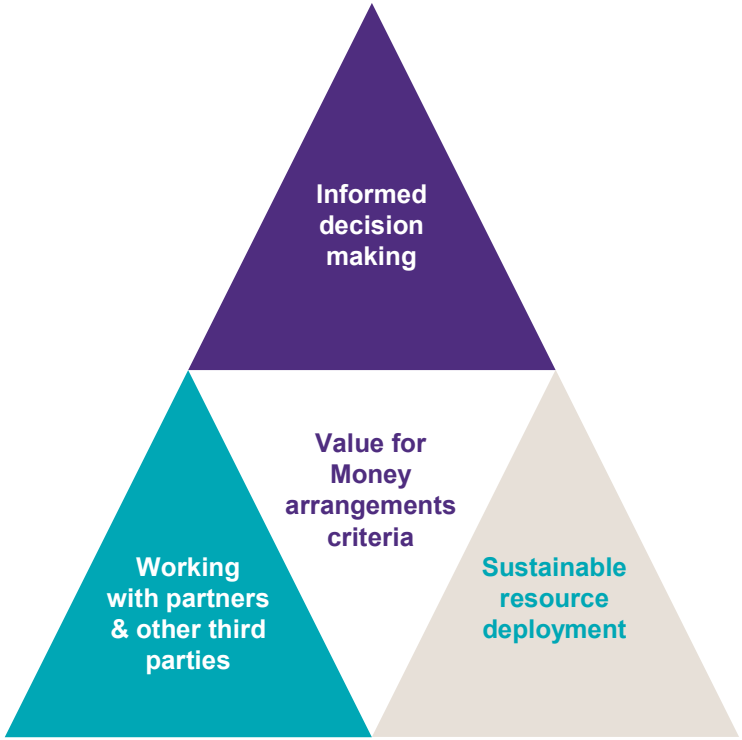
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in January 2018 and identified two 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 12 March 2018.

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

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

Value for Money

Our work

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

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were the progress throughout the 2017/18 financial year of the Council in relation to its arrangements to ensure financial resilience as well as strategic asset management.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 18 and 19.

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 E.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Key findings

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

Significant risk

Medium Term Financial Resilience

We identified the Council's 'Medium Term Financial Resilience' as a significant risk.

We noted that the Council has historically managed its finances well, achieving financial targets and at the time of our planning, was forecasting a small overspend against the general fund of £1.0m for 2017/18. Nevertheless, the Budget and Medium Term Financial Strategy approved by Council on 1 March 2017 identified that the Council would need to find further budget reduction and income generation proposals totalling £20.5 million over the two-year period to 2019/20 (with £14.8 million required for 2018/19).

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

Findings

Consideration of 18/19 and 19/20 budget and savings requirement

In the Cabinet paper from November 2017, it was noted that the projected outturn for the General Fund was an overspend in the region of £1.0 million. The Council was able to manage its cost pressures in the last 3 month of the year and ,as presented in the Revenue Budget Outturn report to Cabinet on 11 July, the actual outturn was a net underspend of £781,000. This was after meeting the net cost of redundancy and pension strain, after the use of capital receipt flexibility, and contributions to essential earmarked reserves.

Services had a net budget overspend of £431,000 for the year but this was offset by additional grant and business rate income, enabling the Council to deliver an overall underspend It is worth noting that while the People Directorate marginally overspent, the Looked After Children part of the directorate overspent by £2.0m against placement budgets. The majority of this was offset by efficiencies elsewhere across the Children's and Young People budget. We have reported on the Council's monitoring its looked after children in past Audit Findings Reports and note that the Council continue to recognise this as a significant cost pressure and are monitoring the demographics associated with this cohort. Whilst Wolverhampton has seen a modest increase in the number of Looked After Children during 2017-2018, the monitoring report that went to Corporate Parenting Board in May 2018 shows that the number of LACs per 10,000 population remains relatively consistent. Understanding and managing the number of Looked After Children is key to the financial stability of the Council.

Overall, we are satisfied that the Council has continued to show strong budget management during 2017/18.

Findings continued

Consideration of 18/19 and 19/20 budget and savings requirement

The budget as agreed at Cabinet in its February 2018 meeting, demonstrated that balance would be achieved in 2018-2019 without the use of general reserves. It built on a previous report to Full Council in March 2017 which had highlighted that £14.8 million of savings needed to be identified for 2018-19 in order to meet the budget. We have reviewed the assumptions applied to the 2018/19 budget and are not minded to challenge these assumptions as they do not appear unreasonable. This includes a Council Tax increase of 1.99%. We are satisfied from our review that the Council has sufficiency of reserves to bolster its finances should its savings plans not be delivered, but clearly reserves can only be used once.

We note that in the *Draft Budget and Medium Term Financial Strategy 2019-2020* (as reported to Cabinet 11 July 2018) that consideration has been given to a number of savings schemes. The report includes high level "targets" for directorates, as well as some one-off gains. These will enable the Council to reduce its projected shortfall but will be insufficient in the long term as they will not provide recurrent solutions.

The proposed actions are shown in the table below.

Proposed savings and income generation plans

	2019-2020 £'000
Projected Budget Challenge as approved by Council, March 2018	**19,463**
Council Tax	(1,600)
One-off funding streams - Use of Corporate Reserves - Reduction in Job Evaluation Reserve - Additional Treasury Budget Adjustments/Capital Receipts - VAT Refund	 (1,500) (500) (2,000) (2,000)
Realisation of benefits from existing strategies	(1,400)
Recognise income for Adult Social Care from the Better Care Fund	(1,700)
High level targets to be issued to Directorates - Corporate - People - Place	 (1,500) (2,000) (2,000)
Projected Budget Challenge as at July 2018	**3,263**

Source: Draft Budget and Medium Term Financial Strategy 2019-2020, Cabinet, 11 July 2018

A number of these plans are in development or rely on decisions by members, such as a 2.99% increase in Council Tax. There will be an updated report presented to Cabinet in October 2018 detailing budget reduction and income generation proposals that will be subject to formal budget consultation during October to December 2018.

The Council will need to maintain its focus on savings in 2018/19 and 2019/20 if it is to remain financially resilient.

Auditor view

On the basis of the work performed we have concluded that the risk was sufficiently mitigated and we are therefore satisfied that the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Significant risk

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 that further action was needed to embed the Strategic Asset Management function and to establish a Strategic Asset Management Plan. It was noted in the 2015/16 and 2016/17 Annual Governance Statement that a Strategic Asset Plan had yet to be developed.

We have reviewed the Council's progress against this for 2017/18 to assess whether these actions have been undertaken and are effective.

Findings

Key actions by the Council are:

- Data management

Focal365 has been obtained which will function as a Council-wide corporate asset database. This will enable the current Corporate Property Database (SAM), Agresso and Energy Database to report into one place enabling asset performance reports to be produced. The test model provided by Focal365 identified a number of gaps in the data being used. The Council have now employed a dedicated Asset Data Officer to review this data on a line by line basis, and a Business Analyst to ensure the project is delivered. It is anticipated that work on validating and populating information to enable the new system will take place in order for a go live by August 2018.

- Utilisation survey/Commercial Estate

The Council has developed an Asset Challenge programme (the first workshop for which was held in June 2017). The purpose of this programme is to provide challenge as to how buildings are being utilised and the capacity need. Further workshops continued to be held and more recently have focussed on land. The approach being taken to the Asset Challenge is a step-by-step process with the aim of assessing all Council property and determining whether they can be disposed of or used more effectively and efficiently. The disposals programme which has arisen from this continuous asset challenge is in place for both 2018/19 and 2019/20.

- Developing Strategic Asset Plan

The Annual Governance Statement highlights the Corporate Landlord as a governance issue which has not been resolved, and carries forward the risk to 2018/19. It notes that a draft Strategic Asset Plan has been produced but is yet to be finalised. The Plan comprises three documents: Strategy, Policy and Action Plan. These are currently being finalised with external support from CIPFA with an expected completion of July 2018. The Plan is scheduled for reporting to Cabinet in October 2018. The Disposal Programme for 2018-19 and 2019-2020 has been identified and the delivery of the programme is in progress.

- Other issues

The Council has undertaken reviews during the year with regard to the build of Wolverhampton Markets, Wolverhampton train station and Wolverhampton Civic Hall. It has identified deficiencies with regard to the programme management of all three projects. We have considered these as part of our review and concluded that:

Markets – while deficiencies with regard to the project exist the project in itself is not material to the VFM conclusion

Train station – while deficiencies exist with regard to the project management of the capital build these are not unusual for this type of complex project

Civic Hall – the deficiencies appear significant but the final outcome of the project of not clear and the majority of the costs will fall into 2018/19. We will therefore consider this project as part of our 2018/19 audit.

Auditor view

As reported in our prior year report we note that there continues to be delays in the production of the Strategic Asset Plan compared to when it was first anticipated to have been provided. This has been due to delays in the establishment of an overall estates strategy. We also note that there have been deficiencies with regard to key projects. However, we also note that the Council has begun to develop a corporate asset database, that the Asset Challenge process is underway and a disposals programme agreed. The Asset Plan is scheduled for completion by July 2018. On the basis of the work performed we have concluded that the risk was sufficiently mitigated and we are therefore satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Independence and ethics

Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The non-audit services identified are listed below and overleaf:

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Risk Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Non-audit related			
Strategic Financial Management Development Programme: attendance of two delegates from the Council	5,500	None identified	This was a workshop given to finance officers to provide them with skills to be able to work through their own issues and problems. No direct recommendations were made by Grant Thornton to the attendees to implement at their organisation and the work conducted is not relevant and will not be referred to as part of our audit of the financial statements or consideration of value for money arrangements. This piece of work was led by the Local Government Advisory Team who are separate from the audit team.
Agreed Upon Procedures confirming compliance by the City of Wolverhampton College in accordance with the Service Level Agreement in place with the Council	7,500	None identified	The objective of this work was to: • Confirm compliance with the requirements of the Service Level Agreement; • Ensure funding has only been provided for students who meet the pre-determined eligibility criteria; • Ensure the level of support and funding are a true reflection of the support provided. We will not need to consider this work in respect of our other work at the Council on the financial statements or our VFM conclusion.

Independence & non-audit services continued

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	2,500	Self-Interest (because these are recurring fees)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,500 in comparison to the total fee for the audit of £189,428 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Compliance audit for Homes and Communities Agency grant	2,115	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,115 in comparison to the total fee for the audit of £189,428 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Audit of subsidiary company Yoo Recruit Limited	15,000	Self-interest (because this is a recurring fee)	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 and in particular Grant Thornton UK's turnover overall and our scope of work does not involve making decisions on behalf of the Council's management.
Audit of subsidiary company Wolverhampton Homes Limited	27,000	Self-interest (because this is a recurring fee)	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 and in particular Grant Thornton UK's turnover overall and our scope of work does not involve making decisions on behalf of the Council's management.
Audit of subsidiary company City of Wolverhampton Housing Company Limited	12,000	Self-interest (because this is a recurring fee)	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 and in particular Grant Thornton UK's turnover overall and our scope of work does not involve making decisions on behalf of the Council's management.

Action plan

We have identified one recommendations for the Council as a result of issues identified during the course of our audit. We have agreed this recommendations with management and we will report on progress on this recommendation during the course of the 2018/19 audit. Any matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	●	• We note that the Council does not update its accounting models on an annual basis to reflect the actual unitary payment made and the impact of actual RPI. If the Council's models enable this to be done it would be good practice to model the impact on the future committed payments. • The Code does not state whether the details should specify an estimate of the cash amount that will actually be paid or an estimate based on prices at the Balance Sheet date. Council's are therefore free to choose which (or both) will be more informative.	• The Council'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. **Management response** • This recommendation is accepted and will be implemented in order to be reflected in the financial statements for the year ending 31 March 2019 as appropriate.
2	●	• The Council did not apply the correct percentage to the valuation of Council Dwellings to reflect the existing use value for social housing, which has resulted in an understatement of £109.6m.	• We recommend that the Council put robust quality assurance mechanisms in place to ensure that the valuations within the financial statements are correct. **Management response** • This recommendation is accepted and will be implemented for the year ending 31 March 2019.

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

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2016/17 financial statements, which resulted in 4 recommendations being reported in our 2016/17 Audit Findings report. There were a further 6 recommendations raised in relation to IT General Controls but we do not deem them of sufficient significant to report on them in this report.

We are pleased to report that management have implemented all of our recommendations.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	**Investment Property** 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 recommended that the 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	**Management response** Management response was that all investment properties would be revalued on an annual basis going forwards. **Update** We can confirm from our review of the revaluations done for the year ending 31 march 2018 that this has extended to investment properties and therefore that this action has been taken.
2	✓	**Accruals** In our cut-off testing in the prior year 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 were satisfied that this would not present a material misstatement and therefore no proposed adjustment was raised. This issue arose 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 recommended that the Council revisit their policy and consider whether in light of the above findings they are content that a £10k threshold is appropriate.	**Management response** Management response was that 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. **Update** This policy continues to be in place but we have identified no such errors in the current year's sample testing. Therefore recommendation considered to have been addressed.

Assessment
✓ Action completed
X Not yet addressed

Follow up of prior year recommendations continued

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3	✓	**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 recommended that the Council ensure that the actuary is made aware of any information pertinent to their calculations on a timely basis.	**Management response** Management response was that this was noted and would be implemented. **Update** We note that the Council has been proactive in its communications with the actuary this year and provided information to them ahead of the audit to determine if the full listing of redundancies would have had a material impact on the actuary's valuation. The actuary confirmed that it would not have been material. We therefore consider this action to have been taken.
4	✓	**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 recommended that the Council undertake a review of leases to ensure they have all appropriate documentation available to them.	**Management response** Management response was that 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. **Update** We have undertaken sample testing of operating leases during our audit and have noted that the issues arising can confirm from our review of the revaluations done for the year ending 31 march 2018 that this has extended to investment properties and therefore that this action has been taken.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

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

Impact of adjusted misstatements

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

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1	**Valuation of Council Dwellings** We have identified that Council Dwellings are understated by £109.6m. The CIPFA Code requires the fair value of housing stock held for social housing purposes to reflect the Existing Use Value for Social Housing. This was 34% when the previous full valuation was carried out in April 2015; however this was uplifted to 40% from 2016/17. The uplift was not reflected in the valuation of the Council Dwellings in the draft financial statements. This has resulted in a £109.6m understatement of Council Dwellings. Management has adjusted the financial statements to correct this error.	(109,575) Housing Revenue Account net expenditure	109,575 property, plant and equipment	(109,575)
2	**Borrowings** We noted from our review of maturity of borrowings that the split between current and non-current liabilities was incorrect: current liabilities were understated by £8m with an overstatement of £8m in non-current liabilities. This also led to a number of disclosure adjustments needing to be made to the financial instruments note.	-	8,000 current liabilities (8,000) non-current liabilities	-
3	**CIES** In performing an analytical review, comparing current year values to prior year, the finance team identified some miscodings of internal recharges in the 'Corporate Services' and 'Corporate Landlord/Housing' lines of the CIES for the year ending 31 March 2017. These have been corrected, and explained in a prior period adjustment note at note 1E. These are reclassifications only and do not have an impact on the Council's outturn position for the year ending 31 March 2017.	16,100 (16,100) 17,000 (17,000)	-	-
	Overall impact	**(£109,575)**	**£109,575**	**(£109,575)**

Audit Adjustments continued

Misclassification and disclosure changes

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

Disclosure amendments	Detail	Adjusted? ✓
Related parties	In the draft financial statements the Council noted that it owed its subsidiary, Wolverhampton Homes Ltd £1.2m. This was inconsistent with what was being shown in the accounts of Wolverhampton Homes Limited and was determined to be incorrect. The Council owed £4.4m as at 31 March 2018.	TBC
Expenditure analysis by nature	We identified that Note 1D included figures relating to Group whereas in line with the EFA it should disclose Council expenditure only. This finding relates to the current as well as the prior year and therefore both have been amended and some narrative added beneath the note to explain the change.	TBC
Pensions prepayment	The Code requires authorities to provide an indication of the effect of the defined benefit plan on the authority's future cash flows and therefore an authority should disclose: a) description of any funding arrangements and funding policy that affect future contributions and b) the expected contributions to the plan for the next annual reporting period. As the Council has made a prepayment which covers this financial year we have recommended that additional narrative be added within the pensions note to ensure that the above requirements are met.	TBC
Contingent Asset	It was reported to Cabinet in July 2018 that a recent ruling by the European Court of Justice has raised the possibility of avoiding the need to charge VAT on some activities for which the Council currently charge the standard 20%. The Council have estimated that it has overpaid VAT of £2.0 million from July 2007 to March 2018. Partners have been engaged to lodge a claim on behalf of the Council, and it is anticipated that the outcome should be known during this financial year. As this represents a “probable” inflow of economic benefits this requires a contingent asset to be disclosed.	TBC
Cash flow	There were some errors identified in the notes to the cash flow statement as follows: £3.6m was reclassified from the line ‘net charges made for retirements benefits’ to ‘employer’s contributions payable to the pension fund’ in relation to Wolverhampton Homes Limited. The ‘interest paid’ and ‘interest received’ lines were updated to include the relevant amounts in relation to Wolverhampton Homes Limited, which had erroneously been omitted in the draft financial statements.	TBC

Audit Adjustments continued

Misclassification and disclosure changes continued

Disclosure amendments	Detail	Adjusted? ✓
Housing Revenue Account	Note H2, Analysis of the movements on the HRA statement required amendment for the Amount Set Aside for the Repayment of Debt which was £21.6m instead of £23.6m and an amendment to the Transfers to/(from) earmarked reserves line from (£2.6m) to (£0.6m).	TBC
Participation in Pension Schemes	The Council contributions to the Teachers' Pension Scheme were incorrectly stated as £5.98m when it should be £5.4m for the year ending 31 March 2018.	TBC
PFI liability	All of the PFI liability within the disclosures is shown as a non-current liability. Part of the liability was to be paid during the year ending 31 March 2018 and therefore should be shown as current liability. These balances are classified correctly in the balance sheet.	TBC
Grants	We have identified that £0.891m of grant revenue has not been included in the grants disclosure. Treatment was correct in the CIES therefore no audit adjustment was required to the primary financial statements.	TBC
Miscellaneous	We have made a number of amendments in conjunction with Council Officers to improve the presentation and disclosure of the financial statements.	TBC

Audit Adjustments continued

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 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	Impact on total net expenditure £'000	Reason for not adjusting
1	**PFI liability value** The liability disclosed in relation to St Matthias and Heath Park is £1.003m lower than the audit estimate. The liability disclosed in relation to Highfields and Penn is £1.598m lower than the audit estimate.	-	(2,601)	-	This was not adjusted on the grounds of materiality.
	Overall impact	**£0**	**(£2,601)**	**£0**	

Audit Adjustments continued

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2016/17 financial statements

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Reason for not adjusting
1	**Council Dwellings** The district valuer provided a beacon valuation for Council Dwellings. When extrapolated across the population of total Council Dwellings this resulted in an increase in value of £7.5m. This was not adjusted for as it was not considered to be material as it only represented a 1.09% change in value.	-	7,525	-	The valuation undertaken last year has been superseded by a further valuation undertaken in respect of the year ended 31 March 2018. The results of this valuation have been accounted for in the value of Council Dwellings for the year ended 31 March 2018.
2	**PFI** Highfield and Penn School PFI liability was identified to be £1.72m lower than the audit estimate. This was not adjusted on the grounds of materiality.	-	1,720	-	This finding has been superseded by our findings for the year ending 31 March 2018 in relation to the PFI accounting and associated disclosures.
3	**PFI** All of the PFI liability within the balance sheet was shown as a non-current liability. Part of the liability was to be paid during the year ending 31 March 2018 and therefore should have been classified as a current liability. This was not adjusted on the grounds of materiality and due to there being a net nil impact.	-	3,160 (3,160)	-	This finding has been superseded by our findings for the year ending 31 March 2018 in relation to the PFI accounting and associated disclosures.
	Overall impact	**£-**	**£5,805**	**£-**	

Fees

We confirm below our fees charged for the audit.

Audit Fees

	Proposed fee	Final fee
Council Audit	189,428	189,428
Audit of subsidiary company Wolverhampton Homes Limited	27,000	27,000
Audit of subsidiary company Yoo Recruit Limited (not consolidated on grounds of materiality)	15,000	15,000*
Audit of subsidiary company City of Wolverhampton Housing Company Limited (not consolidated on grounds of materiality)	12,000	TBC**
Grant Certification - Housing Benefit Subsidy Claim	14,128	14,128
Total audit fees (excluding VAT)	**£257,556**	**£257,556**

* This fee represents the amount that was charged for the audit in respect of the year ending 31 March 2017 as this is the most recent audit to date. The audit of this company has yet to take place in respect of the year ending 31 March 2018.
** £12,000 represents the proposed fee, but we note that the audit of this company has yet to take place in respect of the year ending 31 March 2018, which will be the first year of audit.

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

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'.

Fees continued

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

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• Certification of Housing capital receipts grant – work undertaken in January 2018	2,500
• Compliance audit for Homes and Communities Agency grant – work undertaken in December 2017	2,115
Non-audit services:	
• Strategic Financial Management Development Programme: attendance of two delegates from the Council – work undertaken in Autumn 2017	5,500
• Agreed Upon Procedures confirming compliance by the City of Wolverhampton College in accordance with the Service Level Agreement in place with the Council – work undertaken in October 2017	7,500
	£17,615

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of City of Wolverhampton Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Balance Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement and all notes to the financial statements, including the summary of significant accounting policies to the core financial statements and the Group Accounts. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 2 to 19, which comprises the Narrative Report and the Statement of Responsibilities, as well as the Annual Governance Statement and Glossary on pages 185 to 215, other than the group and Authority financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 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 Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on pages 17 and 18, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. 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 2017/18, which give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit and Risk Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

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.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - *Delay in certification of completion of the audit*

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 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 2018. 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 2018.

[Signature]

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

The Colmore building
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[Date]