

Wolverhampton City Council

**OPEN INFORMATION ITEM**

Audit Committee

Date **19 December 2011**

Originating Service Group(s)

**DELIVERY**

Contact Officer(s)/

**P MAIN**

Telephone Number(s)

**4410**

Title/Subject Matter

**EXTERNAL AUDIT – ANNUAL AUDIT LETTER 2010/2011**

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**RECOMMENDATION**

That Members of the Audit Committee note the Annual Audit Letter 2010/2011 from the Council's external auditors, PricewaterhouseCoopers.

## **1. PURPOSE AND BACKGROUND**

- 1.1 The purpose of this report is to update Members on the Annual Audit Letter 2010/2011 (attached at Appendix 1), issued by the Council's external auditors PricewaterhouseCoopers (PwC).
- 1.2 Representatives from PwC will be in attendance at the meeting to present the Annual Audit Letter and respond to any questions from Members of the Committee.

## **2. DETAILS**

- 2.1 The purpose of the Annual Audit Letter is to summarise the results of the 2010/2011 audit. PwC have already reported the detailed findings in previous reports to this Committee:
- Audit opinion for 2010/11 financial statements, incorporating their conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources;
  - External Audit Update Report (July 2011);
  - Annual Certification Report; and
  - Report to those charged with Governance (ISA (UK&I) 260).

The matters reported in the Letter are those that PwC consider are the most significant for the Authority.

## **3. FINANCIAL IMPLICATIONS**

- 3.1 There are no direct financial implications arising from this report although the external auditor's Annual Audit Letter is a key element of the assurance framework that underpins the authority's financial arrangements.  
[DM/08122011/F]

## **4. LEGAL IMPLICATIONS**

- 4.1 There are no direct legal implications arising from this report.  
[MW/08122011/H]

## **5. EQUAL OPPORTUNITIES IMPLICATIONS**

- 5.1 There are no direct equal opportunities implications arising from this report.

## **6. ENVIRONMENTAL IMPLICATIONS**

- 6.1 There are no direct environmental implications arising from this report.

## **7. SCHEDULE OF BACKGROUND PAPERS**

- 7.1 PwC working papers and file notes.

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*Government and Public Sector*

***Wolverhampton City  
Council***

Annual Audit Letter

2010/11 Audit

November 2011

PricewaterhouseCoopers LLP  
Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

The Members  
Wolverhampton City Council  
Civic Centre  
St. Peter's Square  
Wolverhampton  
WV1 1SH

30 November 2011

Ladies and Gentleman

We are pleased to present our Annual Audit Letter summarising the results of our 2010/11 audit. We hope it provides a useful source of reference and look forward to presenting it to Members of the Audit Committee on 19 December 2011.

Yours faithfully



Richard Bacon

PricewaterhouseCoopers LLP

**Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In March 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.*

# Introduction

## **Purpose**

This letter summarises the results of the 2010/11 audit. We have already reported the detailed findings in the following reports:

- Audit opinion for 2010/11 financial statements, incorporating our conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources;
- External Audit Update Report (July 2011);
- Annual Certification Report; and
- Report to those charged with governance (ISA (UK&I) 260).

The matters reported to you here are those we consider to be the most significant for the Council.

No specific recommendations have been made which we are required to include here. Our 'Report to those charged with governance (ISA (UK&I) 260)' set out a small number of recommendations for the Section 151 Officer and her team. This is also a requirement of the Audit Commission's Standing Guidance for Auditors.

## **Scope of work**

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

You are responsible for preparing and publishing the financial statements, accompanied by the Annual Governance Statement. You are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

As auditors we are responsible for:

- Forming an opinion on the financial statements;
- Reviewing the Annual Governance Statement;
- Forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources;
- Considering any questions or objections raised by local electors to the financial statements; and
- Undertaking any other work specified by the Audit Commission.

We agreed our 2010/11 Audit Plan with the Audit Committee in December 2010. We made a small number changes to our planned approach which we reported to the Audit Committee in our 'Report to those charged with governance (ISA (UK&I) 260)'.

# Audit Findings

## Accounts

We audited the Council's accounts in line with International Standards on Auditing (UK & Ireland). We reported the detailed findings from our audit of the financial statements to the Council's Audit Committee on 29 September 2011 and issued an unqualified audit report on 21 October 2011.

2010/11 was the first year the Council has prepared their accounts in accordance with International Financial Reporting Standards (IFRS). Some Authorities have managed this process effectively, particularly where there has been good officer continuity. Others, including this Council, have struggled and have had delays.

We identified the following key points from our audit of the Council's accounts:

- Shortcomings in the quality and timeliness of the Council's accounts and working papers delayed the completion of our work. As a consequence we were not in a position to provide you with an audit opinion on your accounts prior to 30 September 2011 as planned;
- The accounts and working papers were not entirely ready for the start of the audit. We identified a number of disclosure matters in the draft accounts which were material in total;
- The Finance Team worked closely with us to resolve audit issues and have worked very hard to respond to our requests for information. The need to 'catch up' on incomplete and inaccurate working papers and disclosure notes did however have a knock on impact on staff availability for our audit;
- The Council's housing stock was overvalued by £412 million. This amendment impacted upon the net cost of services of the Council, but not general fund balances;
- Our review of the Council's key financial systems identified no material weaknesses. Quality control arrangements around the Council's accounts closedown processes require improvement, particularly in the areas of working papers, disclosures and fixed asset revaluation accounting. The Council has identified that its contract and procurement related controls require improvement and has put plans in place to do this;
- All misstatements found during the audit were adjusted for by the Council in its final accounts (other than trivial ones);
- We issued an unqualified audit report on 21 October 2011.

We reported in our 'Report to those charged with governance (ISA (UK&I) 260)' that the Council must learn the lessons from this year's accounts closedown and audit process. Since completing our audit the Council has shared with us its provisional plans for 2011/12 which if implemented will better prepare the Council for next year's audit. We will continue to work with the Council's Section 151 Officer, Finance Team and Audit Committee to help ensure that these improvements are delivered.

## ***Economy, efficiency and effectiveness***

We were required to issue a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion was based on two criteria:

- The Council has proper arrangements in place for securing financial resilience; and
- The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Unlike in previous years, we have not had to reach a scored judgment on these criteria and the Audit Commission has not developed 'key lines of enquiry' for each criteria. Instead, we determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

We reported the detailed findings of this work to the Audit Committee and issued an unqualified conclusion on the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources on 21 October 2011.

We identified the following key points from our audit of our review of the Council's arrangements:

- You had appropriate measures in place to set the 2011/12 budget and both Officers and Members were sufficiently involved in the challenge and scrutiny process;
- The Council has a track record of operating within its financial constraints and the savings programme has well established governance and reporting arrangements;
- During 2010/11 you demonstrated your ability to make savings and achieved your £12.656 million original savings target. You also delivered an overall net saving of £7.62 million against the General Fund net budget requirement. This amount was added to the general fund reserve;
- The Council's reserve balances stand at £39.54m which represents 16% of the 2011/12 net budget requirement;
- The Council has identified that its procurement processes require strengthening and work is ongoing to 'transform' the contract life cycle;
- The Council is yet to reach an affordable Single Status agreement which delivers fairness to staff and value to the Council. Unsettled equal pay claims continue to be a risk to your financial standing; and
- Your independent review of the proposed partnership with Axon Solutions Ltd has yet to report – see below.

## ***Other Matters***

### ***Learning the lessons from the proposed partnerships with Axon Solutions Ltd***

In our audit letter last year (dated December 2010) we commented upon the Council's lack of progress in reviewing the matters surrounding the proposed partnership with Axon Solutions Ltd.

In March 2011, following a detailed scoping exercise, the Council commissioned an independent review. We reviewed the scope of this work and identified no concerns. In May we met with the review team. We understand that good progress was made in the summer, and that the review team was able to gather the information it required.

At the time of writing this report we understand that the Council will be receiving a report of recommendations on this matter in the coming days. We will consider this before deciding whether there are further steps we should take.

Based on a rounded judgement we concluded that this matter should not impact on our 2010/11 use of resources conclusion. It remains important however that the Council understand and learn from this matter.

### ***Single Status and Equal Pay***

The Council is yet to reach an affordable Single Status pay agreement which delivers fairness to staff and value to the Council. There are also a number of unsettled equal pay claims against the Council.

During our 2010/11 accounts audit work we reviewed the Council's accounting treatment for potential liabilities relating to equal pay claims and concluded that the Council's provision of £20.9 million was reasonable and meets relevant financial reporting standards.

We have also met with senior officers who have updated us on its arrangements for resolving the equal pay claims against the Council (and also for reaching an affordable Single Status pay agreement) which include:

- Governance arrangements including a Project Board, Steering Group and Project Team;
- Project plans and reporting arrangements which include Single Status Progress Reports to Cabinet;
- Senior officers leading key work-streams of the project;
- Gaining independent assurance on key matters including a review of the Council's new Job Family Methodology undertaken by the Local Government Employers (LGE); and
- The involvement of legal advisors and Internal Audit in providing advice and assurance on key matters including data quality;

This work remains ongoing and is clearly complex. Before completing this work, the Council needs to:

- Complete its financial modelling;
- Consult with key stakeholders;
- Monitor its outstanding legal cases and the status of previously agreed settlements; while
- Keeping up to date with legal precedent.

It remains important therefore that the Council maintains a disciplined approach to project managing this area in order to ensure that any future decisions are based on quality management information. Ultimately it will be important to ensure that financial decisions are appropriately reviewed and approved and that they represent value for money for the Council. The Council will also need to ensure that the control environment surrounding any equal pay settlement is robust.

### ***Whole of Government Accounts***

We undertook our work on the Whole of Government Accounts (WGA) consolidation pack as prescribed by the Audit Commission. Following the completion of our financial statements audit, the audited pack was submitted on 9 November. The 30 September deadline was therefore missed. We concluded that the WGA was consistent with the financial statements for the year ended 31 March 2011.

### ***Grant Claims and Certification***

We presented our second Annual Certification Report to the Audit Committee in July 2011. We certified fourteen claims and returns worth over £238 million. In five cases a qualification letter was required to set out issues arising from the certification of the claim. Eight of the claims were amended following the certification work undertaken. None of these amendments were significant. An action plan has been agreed with management to further improve the Council's processes.



### **Annual Governance Statement**

Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context

### **West Midlands Pension Fund**

We also audit the accounts of the West Midlands Pension Fund. There were no significant issues and we provided an unqualified opinion on the Pension Fund accounts.

### **Fee update for 2010/11**

Our 2010/11 Audit Plan, presented to the Audit Committee in December 2010, set out our planned audit fees. Due to a combination of audit issues emerging during the audit and agreed changes in audit scope, after discussion with the Council's Section 151 Officer, we have amended our fee as follows:

	<b>£</b>
Planned 2010/11 audit fee based on scope of work agreed at December 2010	465,000
Agreed change of audit scope and additional audit support (IFRS, contracts and procurement, IT transformation and restructuring)	30,442
Additional audit work in respect of material amendments to the accounts ( fixed asset valuations)	7,314
Additional audit work in respect of extended final accounts audit timetable	58,871
<b>Total Final Fee</b>	<b>561,627</b>

*In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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