

Wolverhampton City Council

**OPEN INFORMATION ITEM**

Audit Committee

Date **30 January 2012**

Originating Service Group(s) **DELIVERY**

Contact Officer(s)/ **P MAIN**

Telephone Number(s) **4410**

Title/Subject Matter **EXTERNAL AUDIT PLAN 2011/12**

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**SUMMARY**

That Members of the Audit Committee note the Audit Plan 2011/12 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 Plan 2011/2012 issued by the Council's external auditors PricewaterhouseCoopers (PwC).
- 1.2 Representatives from PwC will be in attendance at the meeting to present their Annual Audit Plan 2011/12 and respond to any questions from Members of the Committee.

## **2. DETAILS**

- 2.1 The Annual Audit Plan, which is attached at Appendix 1, explains PwC's responsibilities as the Council's auditors, including the final accounts audit, and how they plan to discharge them during 2012/13.

## **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.  
[GE/13012012/K] ]

## **4. LEGAL IMPLICATIONS**

- 4.1 There are no direct legal implications arising from this report.  
[MW/13012012/Z]

## **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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# *Wolverhampton City Council*

## External Audit Plan 2011/12

Government and Public  
Sector

January 2012



Members of the Audit Committee  
Wolverhampton City Council  
Civic Centre  
St. Peter's Square  
Wolverhampton  
WV1 1SH

20 January 2012

Ladies and Gentlemen,

We are pleased to present our Audit Plan, which shows how your key risks and issues drive our audit and summarises how we will deliver. We look forward to discussing it with you so that we can ensure we provide the highest level of service quality.

We would like to thank Members and Officers of the Council for their help in putting together this Plan.

If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either Richard Bacon or James Howse.

Yours faithfully,

PricewaterhouseCoopers LLP



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*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 and on the Audit Commission’s website. 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 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.*

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# Introduction

## *Purpose*

This plan:

- is required by International Standards on Auditing (ISAs);
- sets out our responsibilities as external auditor under the Audit Commission's requirements;
- gives you the opportunity to comment on our proposed audit approach and scope for the 2011/12 audit;
- records our assessment of audit risks, including fraud, and how we intend to respond to them;
- tells you about our team; and
- provides an estimate of our fees.

We ask the Audit Committee to:

- consider our proposed scope and confirm that you are comfortable with the audit risks and approach;
- consider and respond to the matters relating to fraud; and
- approve our proposed audit fees for the year.

## *Our work in 2011/12*

We will:

- audit the annual report and statutory accounts, assessing whether they provide a true and fair view;
- check compliance with International Financial Reporting Standards (IFRS);
- check compliance with the code of practice on local authority accounting;
- consider whether the disclosures in the Annual Governance Statement (AGS) are complete;
- see whether the other information in the accounts is consistent with the financial statements;
- report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- tell you promptly when we find anything significant during the audit, directly to management and as soon as practicable to the Audit Committee throughout the year.

We are required to report information on your accounts to the National Audit Office (NAO) which is used as part of the assurance process for compiling the Whole of Government Accounts (WGA).

## ***Risk assessment***

We considered the Council's operations and assessed:

- business and audit risks that need to be addressed by our audit;
- how your control procedures mitigate these risks; and
- the extent of our financial statements and value for money work as a result.

Our risk assessment shows:

- those risks which are significant, and which therefore require special audit attention under auditing standards; and
- our response to significant and other risks, including reliance on internal and other auditors, and review agencies.

## ***Responsibilities***

*Officers and members of each local authority are accountable for the stewardship of public funds. It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control.*

*It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code), supplemented by the Statement of Responsibilities of Auditors and of Audited Bodies. Both documents are available from the Chief Executive or the Audit Commission's website.*

*In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.*



# *Scope of the audit*

## Code of Audit Practice

Our work under the Audit Commission's Code falls in two parts:

- Accounts including a review of the Annual Governance Statement; and
- The Council's arrangements to secure economy, efficiency and effectiveness in its use of resources (otherwise referred to as our Value for Money conclusion)

We are required to issue a two-part report covering both of these elements.

## Accounts

The Code requires us to comply with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). We are required to comply with them for the audit of your 2011/12 accounts.

We will issue an opinion stating whether in our view:

- the accounts provide a true and fair view and have been prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the CIPFA Service Reporting Code of Practice; and
- the information given in the Explanatory Foreword is consistent with the accounts.

In our audit report on your accounts, we are also required to report by exception where, in our view, the Annual Governance Statement does not comply with the requirements of "Delivering Good Governance in Local Government: Framework" published by CIPFA/SOLACE in June 2007 or is misleading or inconsistent with information we are aware of from our audit.

As part of our work on your accounts we will also examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and issue an opinion stating whether in our view they are consistent with the accounts.

## Value for money conclusion

Under the Audit Code, we have a responsibility to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

As in 2010/11, we will be carrying out sufficient work to allow us to reach a conclusion on your arrangements based on your circumstances. In accordance with guidance issued to us by the Audit Commission our work will focus on the following 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.

## Local government pension fund

We have prepared a separate audit plan for work on the pension fund. This and other matters relating to the pension fund audit will be presented to those charged with governance for the pension fund, as well as to the officers and Members of this committee.

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## Other reporting requirements

In addition to the above, we are also required to consider whether:

- we need to issue a report in the public interest under s8 of the Audit Commission Act 1998;
- we need to make written recommendations for the consideration of the organisation under s11(3) of the 1998 Act;
- we believe that the Council or one of its officers:
  - is about to make or has made a decision which involves or would involve the authority incurring expenditure which is unlawful,
  - is about to take or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
  - is about to enter an item of account, the entry of which is unlawful and we need to issue an advisory notice under s19A of the 1998 Act.
- there is any item of account for which we need to make an application to the court under s17 of the 1998 Act for a declaration that the item is contrary to law; and
- we need to apply under s24 of the 1998 Act for judicial review of any decision or failure to act by the organisation which it is reasonable to believe would have an effect on the accounts.

# Audit approach

## Introduction

Our audit approach is based on a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of high risk and issues of concern to you. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

We plan our work to have a reasonable expectation of detecting fraud where the potential effects would be material to the financial statements of the Council. Based on the level of management's control procedures, we consider whether there are any significant risks of fraud that may have a material impact on the financial statements and adapt our audit procedures accordingly. We also consider the risk of fraud due to management override of controls and design our audit procedures to respond to this risk.

Our audit approach is based on understanding and evaluating your internal control environment and where appropriate validating these controls, if we wish to place reliance on them. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

We also aim to rely on the work done by Internal Audit wherever this is appropriate. We will ensure that a continuous dialogue is maintained with Internal Audit throughout the year. We receive copies of relevant Internal Audit reports, allowing us to understand the impact of their findings on our planned audit approach.

Our information technology (IT) specialists will undertake a review of your general IT controls which will focus on access and operation controls within and around your core financial systems.

## Significant and other audit risks

We have undertaken an audit risk assessment which guides our audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of controls implemented by management. Risks to the accounts and our true and fair audit opinion are categorised as follows:

●	Significant	Risk of material misstatement in the accounts due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
●	Elevated	Although not considered significant, the nature of the balance/area requires specific consideration.
●	Normal	We perform standard audit procedures to address normal risks in any material financial statement line items.

Auditing Standards require us to include two fraud risks as significant:

- Management override of controls:

*“Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless*

present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.” ISA 240 paragraph 31; and

- Revenue recognition:

“When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.” ISA 240 paragraph 26.

Both these fraud related risks are included in our risk assessment.

A summary of the audit risks identified for 2011/12 is set out below, with reference to which element of our audit opinion (accounts or value for money) these risks relate to. Further information along with our planned audit response is provided on the following pages.

## Summary of audit risks

A summary of the audit risks identified for 2011/12 is set out below, with further information provided on the following pages.




<i>Risk arising</i>	<i>Potential impact upon PwC work</i>		<i>Categorisation for accounts risks</i>
	<i>Accounts true and fair opinion</i>	<i>Value for money conclusion</i>	
Fraud and management override of controls	◆		● Significant
Revenue recognition (of income and expenditure)	◆		● Significant
Property, Plant and Equipment: Valuation	◆		● Significant
Equal pay and Single Status	◆	◆	● Elevated
Closedown Plans	◆	◆	● Elevated
Investment in Birmingham Airport Holdings Ltd	◆		● Elevated
Changes to accounting for Heritage assets	◆		● Normal
The Medium Term Financial Strategy and savings requirements		◆	N/ A
Procurement		◆	N/ A
Axon		◆	N/ A

## Detail of risks identified

### Financial Statements risks

Risk	Risk Level	Audit approach
<p><b>Fraud and management override of controls</b></p> <p>ISA (UK&amp;I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements. In your organisation, as the pressure to deliver savings increases, so does the risk of management override.</p>	<p>● Significant</p>	<p>We will understand and evaluate internal control processes and procedures as part of our planning work and will perform testing of relevant controls as part of the interim audit visit.</p> <p>We will perform procedures to:</p> <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments;</li> <li>• review accounting estimates for biases and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud;</li> <li>• evaluate the business rationale underlying significant transactions;</li> <li>• test exceptional and unusual items highlighted by the Council’s bank account (and other) reconciliations; and</li> <li>• perform ‘unpredictable’ procedures.</li> </ul> <p>We may perform other audit procedures if necessary in response to our audit work.</p>
<p><b>Revenue recognition (of income and expenditure)</b></p> <p>Under ISA (UK&amp;I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition.</p> <p>There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue position.</p> <p>Given that the Council is experiencing increased pressures on many of its budgets as economic conditions have worsened, there is the potential for budget holders to feel under more pressure to move costs into future periods, or to miscode income and expenditure.</p>	<p>● Significant</p>	<p>We will understand and evaluate revenue and expenditure controls and:</p> <ul style="list-style-type: none"> <li>• seek to place reliance on Internal Audit work on key income and expenditure controls; and</li> <li>• test key income and expenditure controls to confirm they are operating effectively.</li> </ul> <p>We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting.</p> <p>We will also perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk including procedures in relation to:</p> <ul style="list-style-type: none"> <li>• the appropriateness of journal entries and other adjustments;</li> <li>• income and expenditure ‘cut off’; and</li> <li>• accounting estimates for income, expenditure, deferred revenues and provisions.</li> </ul>

Risk	Risk Level	Audit approach
<p><b>Property, Plant and Equipment: Valuation</b></p> <p>Property, Plant and Equipment is the largest figure on your Balance Sheet. You value your properties at fair value using a range of assumptions and the advice of internal and external experts.</p> <p>We have to consider how expertise is used, how your processes ensure the balance is fairly stated, and your assumptions.</p> <p>Specific areas of risk include:</p> <ul style="list-style-type: none"> <li>• asset valuation data may be inaccurate or incomplete;</li> <li>• the Council's valuation assumptions may not be appropriate;</li> <li>• assets' actual market value may fluctuate materially but may not have been re-valued in the accounts; and</li> <li>• capital expenditure may not be accurately allocated between enhancing and non-enhancing.</li> </ul>	<p style="text-align: center;">●</p> <p style="text-align: center;">Significant</p>	<p>We will review the basis of any asset revaluations undertaken and in doing so consider:</p> <ul style="list-style-type: none"> <li>• the judgements, assumptions and data used;</li> <li>• the reasonableness of any estimation techniques applied; and</li> <li>• the expertise of your internal valuer.</li> </ul> <p>Where assets are not re-valued in year we will discuss with you the steps you have taken to ensure that your balance sheet is materially accurate at the year end.</p> <p>As part of our interim audit we will review any proposed changes to the Council's accounting policies for valuations and feedback our findings to management and the Audit Committee.</p>
<p><b>Equal pay and Single Status</b></p> <p>The Council is yet to reach an affordable Single Status pay agreement. There are also a number of unsettled equal pay claims against the Council.</p> <p>Work is ongoing aimed at resolving these matters. There are a number of risks associated with this including:</p> <ul style="list-style-type: none"> <li>• the arrangement may not provide value for money outcomes for the Council;</li> <li>• financial decisions may not be appropriately reviewed and approved in line with the Council's policies;</li> <li>• the control environment surrounding any payments may not be robust; and</li> <li>• payments and / or liabilities recorded in the financial statements may not be accurate and / or complete.</li> </ul>	<p style="text-align: center;">●</p> <p style="text-align: center;">Elevated</p>	<p>We will consider what steps the Council has taken to:</p> <ul style="list-style-type: none"> <li>• satisfy itself that its arrangements represent value for money for the Council;</li> <li>• get appropriate legal advice;</li> <li>• gain assurance on key matters such as data quality; and</li> <li>• ensure the control environment surrounding any payments is robust.</li> </ul> <p>We will evaluate the accounting policies for recognising associated expenditure and liabilities.</p> <p>We will test whether payments, journal entries and other adjustments in the financial statements relating to Equal Pay and Single Status are materially accurate and whether they meet relevant financial reporting standards.</p>

Risk	Risk Level	Audit approach
<p><b>Closedown Plans</b></p> <p>We reported in our ‘Report to those charged with governance (ISA (UK&amp;I) 260)’ that the Council must learn the lessons from the 2010/11 accounts closedown and audit process ( when shortcomings in the quality and timeliness of the Council’s accounts and working papers delayed the completion of the audit).</p> <p>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.</p> <p>There remains a risk however that the accounts closedown and audit timetable is not planned, executed and / or monitored effectively.</p>	<p style="text-align: center;"></p> <p style="text-align: center;">Elevated</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• review your closedown plans;</li> <li>• meet regularly with the Finance Team throughout the year to monitor the Council’s progress in executing its plans;</li> <li>• meet regularly with the Section 151 Officer to discuss the Council’s progress and feedback;</li> <li>• consider the Council’s arrangements for monitoring its closedown plans including any progress reports.</li> </ul> <p>We will feedback our findings to the Section 151 Officer and the Audit Committee.</p>
<p><b>Investment in Birmingham Airport Holdings Ltd</b></p> <p>Wolverhampton City Council owns 4.7% of the ordinary shares of Birmingham Airport Holdings Ltd.</p> <p>The value of this shareholding is held at £16.8 million on your balance sheet.</p> <p>There is a side agreement which has previously reduced the market value of this asset, however this expires during the 2011/12 financial year. We therefore previously recommended that you reconsider the basis of this valuation.</p>	<p style="text-align: center;"></p> <p style="text-align: center;">Elevated</p>	<p>We will review the valuations in the accounts and consider the rationale provided to support the valuation.</p> <p>We will seek confirmation from senior officers that the valuation reflects the status of the investment up to the date we sign our opinion.</p>
<p><b>Changes to Accounting for Heritage Assets</b></p> <p>For the first time the 2011/12 Code requires you to present information about the heritage assets you hold.</p> <p>There is a risk that information relation to the value of such assets is incomplete and / or inaccurate.</p> <p>Where it is practicable to obtain a valuation, the Code now requires material amounts of heritage assets to be carried in the Balance Sheet at that valuation.</p>	<p style="text-align: center;"></p> <p style="text-align: center;">Normal</p>	<p>We will review the Council’s arrangements for reporting the value of its heritage assets, including related disclosure notes.</p> <p>We will consider whether the Council’s accounts are materially accurate and in line with the revised Code.</p>



### Other Audit Code responsibilities risks

Risk	Audit approach
<p><b>The Medium Term Financial Strategy and savings requirements</b></p> <p>The Council has recently updated its Medium Term Financial Strategy (MTFS). This shows that (before new savings proposals are taken into account) the projected cumulative budget deficit amounts to £72.7 million over the next five years. This represents a significant financial challenge. The Council has plans in place to deliver £50.2 million of efficiency savings over this period and has a further savings requirement therefore of £20.5 million.</p> <p>There are a number of risks associated with the MTFS including:</p> <ul style="list-style-type: none"> <li>• Identified savings options may not be achieved;</li> <li>• Further efficiency savings may not be identified;</li> <li>• Spending may exceed budgets and/or income may fall short of budgets;</li> <li>• Inflationary pressures may increase,</li> <li>• Demand for council services may exceed estimates; and</li> <li>• Future finance settlements may vary from current assumptions.</li> </ul> <p>Effectively managing the above risks is critical to Council's future financial resilience and therefore a key part of our assessment on your arrangements for securing economy, efficiency and effectiveness in the use of Council resources.</p>	<p>We will review your updated MTFS and its key assumptions. We will benchmark your inflation, growth and efficiency projections as well as your reserve balances. We will feedback our findings to the Section 151 Officer and the Audit Committee.</p> <p>We will undertake a high level assessment of the strength of your existing plans to deliver savings and efficiencies by assessing the quality of the plans themselves and the robustness of the management infrastructure that supports implementation. We will feedback our findings to the Section 151 Officer and the Audit Committee.</p> <p>We will meet regularly with the Section 151 Officer and the Chief Executive to discuss the Council's financial position and plans.</p> <p>We will regularly review in-year finance reports, identify key issues and consider their impact on budgets and plans.</p> <p>We will consider the findings of our detailed testing on the Council's estimates, provisions and journals undertaken as part of our final accounts audit work. If any of these findings have a significant impact upon the Council's financial plans we will feedback our findings to you.</p>
<p><b>Procurement</b></p> <p>The Council has identified that its procurement processes require strengthening and work is ongoing to 'transform' the contract life cycle.</p> <p>The Council will need to closely monitor the implementation of its procurement transformation plans to ensure that they are delivered. Ensuring the Council has sufficient capacity to drive these plans will be particularly important.</p> <p>There is a risk that these plans are not implemented or that they are delayed, and that as a result planned value for money improvements and savings are not achieved.</p> <p>There is also a risk that planned developments in the control environment surrounding procurement and contracts are not delivered.</p>	<p>We previously recommended that the Council's Internal Auditors should undertake a follow up review of its findings in this area during the 2011/12 financial year, not only to ensure that basic controls are adequate during significant change, but also to ensure that these controls are being complied with in practice. We will review the outcome of this work.</p> <p>We will also meet with key officers in order to understand the Council's progress in delivering its broader transformation plans.</p> <p>We will consider the Council's arrangements for monitoring its plans, including key governance and reporting arrangements.</p> <p>We will consider the interface between the Council's procurement transformation plans and its medium term financial and savings plans.</p>



<b>Risk</b>	<b>Audit approach</b>
<p data-bbox="188 280 263 309"><b>Axon</b></p> <p data-bbox="188 324 778 474">In March 2011, following a detailed scoping exercise, the Council commissioned an independent review into the matters surrounding the proposed partnership with Axon Solutions Ltd.</p> <p data-bbox="188 492 730 582">The Council has recently received a report of recommendations on this matter which it has shared with us.</p>	<p data-bbox="810 280 1433 340">We have considered the report of recommendations. Our course of action will be as follows:</p> <ul data-bbox="858 358 1433 542" style="list-style-type: none"><li data-bbox="858 358 1433 448">• We will meet privately with the review team to check that the original terms of reference have been covered; and</li><li data-bbox="858 452 1433 542">• We will consider the Council’s response to the report of recommendations which we have requested from the Chief Executive.</li></ul> <p data-bbox="810 586 1401 649">Following the above we will consider what, if any, further action is needed.</p> <p data-bbox="810 667 1433 761">We have already discussed the actions we are taking with the Chief Executive. We will keep him and the Audit Committee updated with our progress.</p>

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# *Risk of fraud*

International Standards on Auditing (UK&I) state that we as auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

## **Auditors' responsibility**

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

## **Management's responsibility**

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

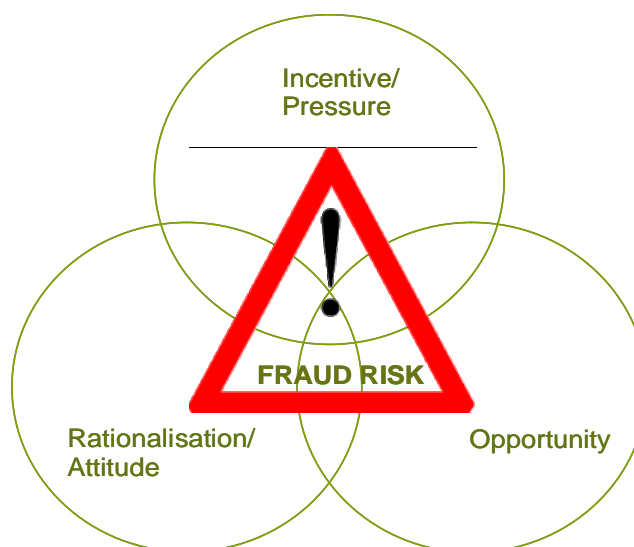
## **Responsibility of the audit committee**

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of antifraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

## Conditions under which fraud might occur

The following diagram shows that three conditions are generally present when fraud occurs:



1. Incentive / Pressure: Management or other employees have an incentive or are under pressure that provides a reason to commit fraud (e.g. pressure to meet targets or hold position);
2. Opportunity: Circumstances exist (e.g. the absence of controls, ineffective controls, or the ability of management to override controls) that provide an opportunity for a fraud to be perpetrated; and
3. Rationalisation / Attitude: Those involved are able to rationalise a fraudulent act as being consistent with their personal code of ethics or possess an attitude, character, or set of ethical values that allow them to knowingly and intentionally commit a dishonest act.

## Your views on fraud

It is important that the Audit Committee has an opportunity to share its views on the risk of fraud with us.

- How are you assured that the risk of fraud at the Council has been effectively mitigated?
- Do you have any knowledge of fraud (actual, suspected or alleged) including fraud involving management?
- What is your view of the Council's fraud detection and prevention measures?
- What protocols / procedures have been established between the audit committee and management to keep you informed of instances of fraud?

# Your team and independence

## Your team

Your audit team has been drawn from our government and public sector team based in the Midlands. Your audit team consists of the key members listed below, but is further supported by our specialists both in the sector, and across other services:

Audit Team	Responsibilities
<p><b>Engagement Partner</b>  <b>Richard Bacon</b>            3<sup>rd</sup> year on the audit            0121 232 2598            richard.f.bacon@uk.pwc.com</p>	<p>Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK&amp;I) 260 report and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.</p>
<p><b>Engagement Senior Manager</b>  <b>James Howse</b>            6<sup>th</sup> year on the audit            0121 232 5956            james.howse@uk.pwc.com</p>	<p>Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, management of targeted work and overall review of audit outputs. Completion of the Audit Plan, ISA (UK&amp;I) 260 report and Annual Audit Letter.</p>
<p><b>Engagement Manager</b>  <b>Richard Vialard</b>            6<sup>th</sup> year on the audit            07809 755 784            richard.vialard@uk.pwc.com</p>	<p>Manager responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the VFM conclusion work.</p>
<p><b>Audit Team Leader</b>  <b>Ben Connor</b>            2<sup>nd</sup> year on the audit            07889 644 879            benjamin.e.connor@uk.pwc.com</p>	<p>Team leader responsible for onsite coordination of our interim and final accounts fieldwork.</p>

## Developing effective relationships

It is our intention that, wherever possible, staff work on the Wolverhampton City Council audit each year, developing effective relationships and an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

## Independence and objectivity

As external auditors of the Council we are required to be independent of the Council in accordance with the Ethical Standards established by the Auditing Practices Board (APB). These standards require that we disclose to those charged with governance all relationships that, in our professional judgement, may reasonably be thought to bear on our independence.

We have a demanding approach to quality assurance which is supported by a comprehensive programme of internal quality control reviews in all offices in the UK. Our quality control procedures are designed to ensure that we meet the requirements of our clients and also the regulators and the appropriate auditing standards within the markets that we operate. We also place great emphasis on obtaining regular formal and informal feedback.

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team.

## Non Audit Work

In addition to our audit under the Code, as previously reported to you the Firm has undertaken an accelerated property review at the Council to produce a range of options of how to release cost savings and optimise estate performance. The fee for the first phases of this work was £165,155 (£46,434 of which related to the 2010/11 period). The Council has now commissioned the Firm to support the next phase of the project which relates to the preparation of a full business case for the rationalisation of the Council's office estate. The proposed fee for this work is £111,700 plus expenses (capped at 10%) plus VAT. We confirm to you that we have appropriate safeguards in place to maintain our audit independence. As part of our quality controls we have sought and gained approval from the Audit Commission to undertake this work.

## Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

## Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

# Communicating with you

## Communications Plan and timetable

ISA (UK&I) 260 (revised) ‘Communication of audit matters with those charged with governance’ requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that ‘those charged with governance’ are the Audit Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Audit Committee with the outputs of our audit.

Stage of the audit	Output	Date
Audit planning	Audit Fee letter	April 2011
	Audit Plan	December 2011
Audit findings	Internal control issues and recommendations for improvement (if applicable - may form part of the Audit Memorandum)	Throughout the audit
	<b>ISA (UK&amp;I) 260 report incorporating specific reporting requirements, including:</b> <ul style="list-style-type: none"> <li>• Any expected modifications to the audit report;</li> <li>• Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust;</li> <li>• Material weaknesses in the accounting and internal control systems identified as part of the audit;</li> <li>• Our views about significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures;</li> <li>• Any significant difficulties encountered by us during the audit;</li> <li>• Any significant matters discussed, or subject to correspondence with, Management;</li> <li>• Any other significant matters relevant to the financial reporting process; and</li> <li>• Summary of findings from our use of resources audit work to support our value for money conclusion</li> </ul>	September 2012
Audit reports	Financial Statements including Use of Resources	September 2012
Other public reports	<b>Annual Audit Letter</b> A brief summary report of our work, produced for Members and to be available to the public.	November 2012

# Audit fees

We set out below (based on our current assessment of risk), an analysis of our estimated fee level.

	2011/12	2010/11
<b>Core audit fee: Accounts and Value for Money</b>	418,500	425,000
<b>Additional agreed risk based audit work:</b>		
Property, Plant and Equipment Valuation	11,500	7,314
Equal Pay and Single Status	9,500	0
Closedown Plans	15,500	0
Investment in Birmingham Airport Holdings Ltd	0 - 2,250	0
Changes to Accounting for Heritage Assets	1,000	0
Savings Plans	5,500	0
Procurement	2,000	4,631
Axon	14,500	15,000
IFRS additional support	0	20,546
Internal control weaknesses	0	15,000
Extended final accounts timetable	0	58,871
System changes and redesign	0	10,000
Other emerging risk based work	<u>20,000</u>	<u>5,265</u>
<b>Subtotal</b>	<b>79,500 - 81,750</b>	<b>136,627</b>
<b>Total</b>	<b>498,000 - 500,250</b>	<b>561,627</b>

The above table shows that our total estimated audit fee range is £498,000 - £500,250. This compares to an indicative audit fee (based on an estimated 2010/11 audit fee level) set by the Audit Commission of £418,500. Total audit fees were £561,627 in the prior year.

We have included a budget for potential 'other' targeted audit work of £20,000 to address any further emerging risks identified during the audit. This work could relate to areas the Council identifies as requiring additional audit support throughout the year. We will discuss and agree the scope of this work should it arise with the S151 Officer and Audit Committee, otherwise this amount will be excluded from our fees.

## Dealing with variations to our agreed plan

We have based the above fee on the following assumptions:

- Officers meeting the timetable and content of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of Internal Audit;
- We are able to draw comfort from your management controls;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- Sufficient staff are available throughout our work to respond to our queries on a timely basis;
- There is no significant departure from our pre-agreed timetable;

- We receive only two sets of accounts to audit; being a draft and a final set with all changes tracked;
- An early draft of the Annual Governance Statement being available for us to review prior to the final accounts audit;
- There are no electors questions or public interest reports issued; and
- Our use of resources conclusion and accounts opinion is unqualified.

Our objective is for the audit to run smoothly, efficiently and deliver the value that we have agreed. In the event that we encounter problems or these assumptions prove to be unfounded, we undertake to let you know in a timely manner and we will seek a variation order to the agreed fee, to be discussed in advance with you.

## Certification of grant claims

Our fee for the certification of grant claims is based on the amount of time required to complete individual grant claims at standard hourly rates. We will discuss and agree this with the Section 151 Officer and her team.



# ***Appendix - Other engagement information***

The Audit Commission appoint us as auditors to Wolverhampton City Council and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors.

There are four further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

## **Electronic communication**

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

## **Access to audit working papers**

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

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## Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you.

If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE1 8HW, or James Chalmers, UK Head of Assurance, at our office at 7 More London, Riverside, London, SE1 2RT. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

## Events arising between signature of accounts and their publication

ISA (UK&I) 560 (revised) places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

In the event that, pursuant to a request which Wolverhampton City Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Wolverhampton City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Wolverhampton City Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Wolverhampton City Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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