

Wolverhampton City Council

OPEN INFORMATION ITEM

Audit Committee

Date 24.09.2012

Originating Service Group(s)

DELIVERY

Contact Officer(s)/

PAT MAIN

Telephone Number(s)

4410

Title

**2011/2012 REPORT TO THOSE CHARGED WITH
GOVERNANCE**

RECOMMENDATIONS

That Audit Committee:

- (1) Receive the report and update from the council's external auditors.

1. PURPOSE

- 1.1 To present to members of the committee the 2011/2012 Report to those Charged with Governance.

2 BACKGROUND

- 2.1 ISA 260 is an auditing standard that requires external auditors to communicate relevant matters relating to the audit of the financial statements to those charged with governance of the entity, sufficiently promptly to enable them to take appropriate action.

3 CONTENT OF THE REPORT

- 3.1 The attached external audit report covers:
 - (a) Issues arising from the external audit of the financial statements, which were previously submitted to the Audit Committee on 6 July;
 - (b) The results of work undertaken in forming an opinion on the council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 3.2 In addition, the external auditors will also provide an update on audit work.

4. FINANCIAL IMPLICATIONS

- 4.1 This report has no direct financial implications. Where the ISA 260 report refers to changes to the council's Statement of Accounts, these are discussed in agenda item 8(a).
- 4.2 The ISA 260 report, and the audit of the accounts, are of fundamental importance to the council's governance and financial control frameworks, and play a key role in ensuring accountability and transparency in the council's finances.

[DK/14092012/K]

5. LEGAL IMPLICATIONS

- 5.1 The Accounts and Audit Regulations require the 2011/2012 Statement of Accounts to be produced in accordance with proper practice. This is the Code of Practice on Local Authority Accounting which is published by CIPFA. These regulations also require that the accounts are certified by the Section 151 Officer by 30 June 2012 and published by 30 September 2012.

[MW/13092012/R]

6. EQUALITY IMPLICATIONS

6.1 There are no equality implications arising from this report.

7. ENVIRONMENTAL IMPLICATIONS

7.1 There are no environmental implications arising from this report.

8. SCHEDULE OF BACKGROUND PAPERS

Draft Statement of Accounts 2011/2012 – Audit Committee, 6 July 2012

Audited Statement of Accounts 2011/2012 – Audit (Final Accounts Monitoring and Review) Sub Committee, 17 September 2012

Government and Public Sector

***Wolverhampton City
Council***

Report to those charged with
governance (ISA 260 (UK&I))

September 2012

2011/12 Audit



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

12 September 2012

Ladies and Gentlemen

Audit Report, year ended 31 March 2012

We have completed the majority of our audit work and have pleasure in enclosing our report. We expect to give an unqualified audit opinion on the financial statements following approval by the Section 151 Officer.

This letter contains the significant matters we wish to report to you arising from all aspects of our work. We will provide an update on our progress at the Audit Committee meeting on 24 September 2012 and look forward to discussing our report with you then.

Yours faithfully

PricewaterhouseCoopers LLP

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

In April 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.

Executive summary

There has been a significant improvement in accounting performance this year which reflects the investment your team and the Audit (Final Accounts Monitoring and Review) Sub Committee have made in the Financial Accounts process over the year.

We received a complete set of draft accounts and started our testing on the dates agreed, as well as receiving a good set of working papers on the first day of the audit. All of these achievements are improvements on last year.

Although we have identified a small number of issues, these are quite specific issues and we found no indication of wider control issues. The financial adjustments required are fewer in number and value than in previous years and the number of disclosure issues are not unreasonable.

The scorecard below summarises our view of your accounts and audit performance:

Area	FY12	Comments	FY11
Quality of accounts and working papers	● (G)/ ● (A)	Your team gave us the draft group accounts (including pension fund) by the June deadline. Supporting working papers were provided on time and were of a good quality. We identified no significant or material issues with the format of the draft accounts. We did identify a number of disclosure issues which have been addressed.	● (R)
Readiness for start of audit	● (G)	Working papers were ready at the start of the audit and key staff were available so that we could start our work on the first day we arrived.	● (R)
Availability and responsiveness of staff	● (G)	Key contacts in the finance team and elsewhere were available during the audit and responded readily to our audit questions and requests for information.	● (A)
Significant audit and accounting issues	● (A)	As to be expected, our audit identified some matters which are explained later in this report. None of these matters are individually material to the financial statements and we anticipate giving an unqualified opinion on the 2011/12 financial statements. We did identify a number of errors within the PPE Impairments total.	● (R)
Deficiencies in internal control systems	● (G)/ ● (A)	We have not identified any material deficiencies in internal control although we have identified two areas where controls ought to be improved.	● (A)
Use of resources (Value for Money) conclusion	● (G)	We anticipate giving an unqualified use of resources/value for money conclusion.	● (A)

Key

- Red (R) – significant improvements required
- Amber (A) – some improvements required
- Green (G) – no or some minor improvements required

An audit of financial statements is not designed to identify all matters that may be relevant to you and does not ordinarily identify all such matters.

We would like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Council throughout our work.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of its standing guidance.

Significant audit and accounting matters

We have to tell you about the key findings from the audit sufficiently promptly to enable you to take appropriate action.

Accounts

We have completed the majority of our audit of the Council's accounts in line with Auditing Standards. At the time of writing, we have work to complete in a small number of areas. This includes:

- Receipt of the signed representation letter;
- Completion of our final subsequent events review and quality control procedures;
- Completion of our final review of the accounts, including the amendments posted during the audit.

Once these are resolved, we will provide our audit opinion which we expect to be unqualified. We will update the Audit Committee on our progress at its meeting on 24 September.

As part of our work on the Statement of Accounts we will also examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government. This work is scheduled to take place during week commencing 17 September.

Accounting issues

Impairment of Property, plant and equipment (PPE)

The Council has to present a materially accurate PPE valuation at each balance sheet date. You have a database called SAM which is used to manage the Council's property. The assets are valued and accounted for on FMIS. In order to present your assets accurately in the accounts, the Council has to:

- ensure FMIS and SAM record the same assets
- review the value of the assets periodically, at least once every five years.

In 2007/08, the council started a 5-year exercise to comprehensively reconcile the two systems (tying in with the five-yearly revaluation cycle), so that all the assets would have been reviewed over five years.

Because 2011/12 was the last of the five years, a number of reconciling differences between the two systems were flushed out. The majority of discrepancies related to assets that had been removed from SAM but not from FMIS which resulted in FMIS being overstated by £26.7 million.

We were concerned to ensure that:

- the discrepancies were properly accounted for;
- assets removed from SAM were removed legitimately; and
- there has been appropriate stewardship over the assets.

Because it was not readily apparent why the discrepancies had occurred, the Finance team proposed to account for them all as impairments, to write off the discrepancies as reductions in value. We asked for more detail because the difference was large enough that it required us to do some further work on this area.

This was obtained and analysed for all assets over £500k and the Council concluded four types of error had been made that required adjustment:

Issue ref:	Description	Proposed accounting treatment to correct error
1	6 assets worth £3.4m were disposed of in prior years.	Account for as a disposal in the current year
2	1 plot of land valued at £6.4 million was recognised twice: once in its entirety and, separately, in its numerous component parts.	Account for as a disposal in the current year
3	2 assets funded through capital grants, but revenue in accounting terms were accounted for as additions These assets were worth £8.7m.	Remove the asset from the balance sheet with a matching entry to the appropriate reserve and charge the same amount to expenditure.
4	4 assets were duplicated in FMIS. These assets had a net book value of £1.9m.	Account for as a disposal in the current year
n/a	2 assets were impaired in prior years, worth £3.4m.	None: account for as an impairment in the current year

The remaining balance of £3m consists of approximately 30 assets with individual values less than £400k. The Council has not investigated each item within this balance due to their immateriality but does not consider these assets to have been impaired. To remove the assets from the balance sheet the Council proposes to account for these as disposals and all balances associated with them will be removed from the accounts.

We have tested, and corroborated evidence to support, the Council's conclusions in each of the cases described and have agreed the Council's proposed treatment for the various types of error identified above.

We considered whether the four types of amendment would require an adjustment to the opening balance sheet but because none of the errors are material and because they do not arise from a change in accounting policy they do not meet the requirements of the accounting standards for such treatment.

We are waiting for the final accounting entries and revised accounts to ensure that the correct accounting entries have been made in the final version of the financial statements.

We expect the amendments to impact on the net cost of services and net asset position of the Council, but because valuation changes are reversed out through the revaluation reserve, general fund balances and the amount to be met by council tax payers should be unaffected by the amendments.

We welcome the process improvement that identified these reconciling items and understand that the Council has now strengthened the controls in place by introducing new procedures that should highlight all current year asset disposals and transfers in a timely and efficient manner. To ensure that these improvements are formalised and understood by all relevant parties we have raised a control issue in this report and will monitor progress against implementing changes.

Equal Pay provision

International Accounting Standard (IAS) 37 requires that the Council recognises a provision in its accounts when:

- (a) it has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

Consistent with previous years, the Council has included a provision in the accounts to reflect the most probable liability relating to equal pay and back pay claims.

Over the last four years the Council has received notification of a number of employment tribunal claims against the Council alleging breach of Equal Pay legislation. The Council has engaged Solicitors to provide legal advice and conduct proceedings on behalf of the Council in relation to these claims.

During the period 1st April 2011 to 31st March 2012 the Council was successful in settling claims worth approximately £1m relating to alleged breaches of Equal Pay legislation. A much larger value of other known claims or potential claims remain unresolved.

On the basis of the advice provided and the information available the Council has estimated the cost of four potential scenarios. These scenarios, and the associated liabilities, remain the same as at this stage last year.

Based on legal advice it has received on this matter, the Council has concluded that the most probable liability is £30 million.

The Council has decided not to provide for claimants who previously signed a COT3 agreement (second generation claimants) because the Council, having considered advice from leading Counsel, believes that these claims will be successfully defended in full.

We have received formal confirmation from the Councils' legal advisors that the proposed accounting treatment is consistent with the advice they have provided. We are also seeking representation from the Section 151 Officer on this matter and, subject to receiving this, we anticipate being able to conclude that the provision of £30 million is reasonable and meets relevant financial reporting standards.

Investment in Birmingham Airport

49% of Birmingham Airport Holdings Ltd is owned by seven local councils - Wolverhampton, Coventry, Dudley, Sandwell, Solihull, Walsall and Birmingham. Birmingham City Council is the largest ordinary shareholder with 18.68%. Wolverhampton City Council owns 4.7% of the ordinary shares.

The valuation of your shareholding was £16.8 million in your 2010/11 accounts, based on an earlier valuation. This has now been updated, and your 2012 accounts show your share in the at £18.6 million. In satisfying ourselves that this valuation is materially accurate we have consulted with our airport valuation experts and:

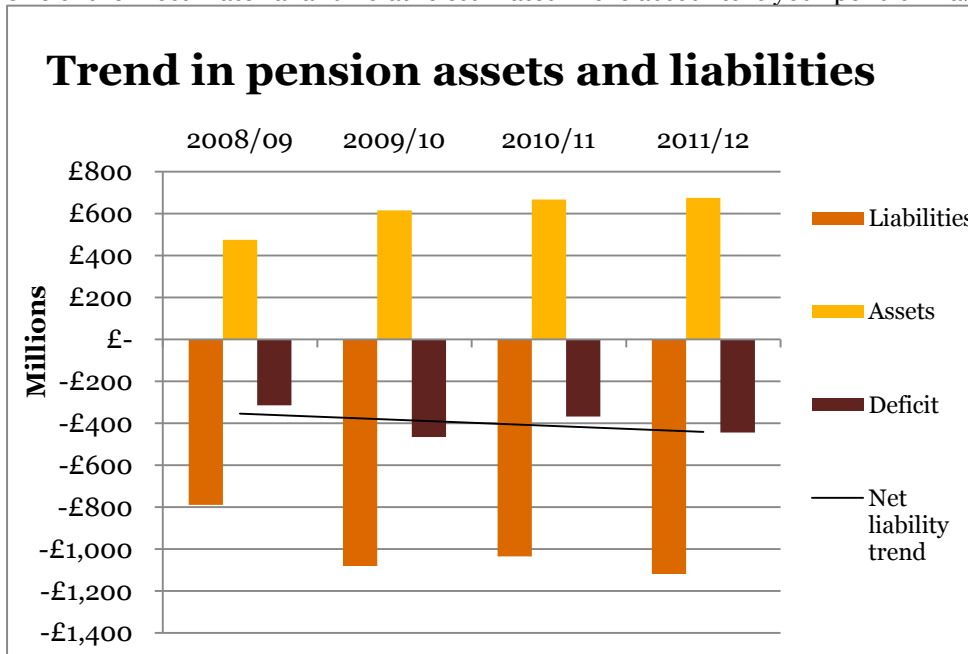
- Considered the outcome of the updated valuation review undertaken by Solihull MBC in conjunction with BDO, on behalf of the Council;
- Reviewed the valuer's assumptions and concluded that the valuation was prudent, based on a number of factors, including regulation, capacity for expansion, economic and sector conditions and earnings potential; and
- Confirmed that a new side agreement (which restricts the sale of shares by all seven stake-holding councils) is in place until 2022.

The letter of representation asks you to confirm that there is no other information that should be taken into account, and that you are satisfied with the valuation. On this basis, we are satisfied that the Council's valuation remains appropriate.

Should you consider selling your stake in Birmingham Airport, you should commission a thorough up to date valuation.

Changes in the Pension Scheme

One of the most material and volatile estimates in the accounts is your pension liability, shown below:



The accounts currently reflect the March 2010 triennial Pension Scheme funding review. Between reviews, the movement in assets is estimated using a “roll forward” approach, adjusting for known trends.

The value of your pension assets has held steady over the year at £0.67 billion and your pension liabilities have also remained relatively steady at around £1 billion. An actuarial loss of £38.6 million was recognised during the 2011/12 financial year which has been taken to expenditure. This contrasts with the one-off £63.8 million past service gain recognised in last year’s accounts relating to the changed requirement to up-rate public service pensions in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

The LGPS actuary is provided with details of scheme membership to calculate the figures for the accounts. We check that the membership numbers used by the Actuary agree to your records.

We assessed the assumptions used by the scheme actuary and reviewed them against independent sources, and did not find any issues or concerns with the assumptions used. We set out below how the assumptions the Council has adopted compare in comparison to the range we would currently find acceptable:

Assumption	PwC acceptable range at 31 March 2012	Actuarial assumptions - LGPS	Actuarial assumptions - Teachers scheme
Discount rate	4.6 per cent – 5.25 per cent depending on duration	4.9%	4.6%
Inflation (CPI)	1.8 per cent – 2.8 per cent depending on duration	2.5%	2.3%
Salary increases	0.5 per cent – 2.0 per cent per annum in excess of inflation, although this assumption is very company-specific	4.25%	N/A

Expected return on equities	Up to 8.0 per cent per annum before allowance for expenses	7.0%	N/A
Expected return on bonds	Up to 5.25 per cent per annum before allowance for expenses depending on bond portfolio held in terms of quality and terms of bonds	3.1% - 4.0%	N/A
Mortality	Life expectancies of at least: 86.5 years for males currently aged 65. 89.2 years for females currently aged 65.	86.7 (men) 89.3 (women)	86.7 (men) 89.3 (women)

Lease disclosures

The Council is required to review its lease arrangements and determine whether they meet strict accounting definitions of either operating or finance leases. During our review of the lease agreements that were used to support the council's calculations we identified one lease disclosed as an operating lease that is, in substance, a finance lease. The Council has made the necessary amendments in the final Statement of Accounts.

This has resulted in an increase in the net cost of services and a reduction in the net asset position of the Council of £1.3 million, but because the adjustment is reversed out through the reserves, general fund balances and the amount to be met by council tax payers should be unaffected by the amendments.

Other audit risks from our audit plan

In Appendix 3 we have provided a summary of other areas of our work that we identified as higher risk during our audit planning.

Misstatements and significant audit adjustments

We are required to report to you all uncorrected misstatements which we have identified during the course of our audit, other than those of a trivial nature. There are no uncorrected misstatements found during the audit (other than trivial ones).

We have brought to your attention above those misstatements which have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities.

During the audit process the Council's accounts have been updated to reflect matters identified by us (and reported to you above) and matters identified by the Council.

The overall impact of these adjustments to the draft accounts presented to the Audit Committee is summarised below:

Accounts heading	June 2012 group financial statements (£'000)	Total net adjustment (£'000)	Latest group financial statements (£'000)
Net cost of services	222.7	(14.6)	208.1
Total Comprehensive (Income) / Expenditure	33.0	(0.4)	32.6
Net assets	620.2	0.8	621
General Fund	39.5	(20)*	19.5

Usable reserves	(144.6)	Nil	(144.6)
Unusable reserves	(475.6)	(0.8)	(476.4)

* - This represents the transfer between the General Fund and the 'Budget Future Years Support Reserve' approved in the July 2012 Cabinet meeting. Both reserves sit within the Council's usable reserves.

The most significant factors in the above summary of amendments are the impairment errors described above.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask the Audit Committee to represent to us that they have considered the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements.

Judgments and accounting estimates

The following significant judgments or accounting estimates were used in the preparation of the financial statements:

- **Property, Plant and Equipment - Depreciation and Valuation** - You charge depreciation based on an estimate of the Useful Economic Lives of your Property, Plant and Equipment (PPE). This involves a degree of estimation. You also value your PPE in accordance with your accounting policies to ensure that the carrying value is true and fair. This involves some judgement and reliance on your internal valuers. You have estimated the value of your housing stock using beacon principles and guidance issued to you by DCLG. This has been considered above.
- **Bad Debt Provision** – Your Bad Debt Provision for sundry debtors is calculated on the basis of age and an assessment of the potential recoverability of invoices. There is an inherent level of judgement involved in calculating these provisions.
- **Accruals** - You raise accruals for expenditure where an invoice has not been raised or received at the year end, but you know there is a liability to be met which relates to the current year. This involves a degree of estimation.
- **Provisions:** Provisions are liabilities of an uncertain timing or amount and therefore there is an inherent level of judgement to be applied. Your equal pay provision is your most significant provision and has been considered above.
- **Pensions:** See above. You rely on the work of an actuary in calculating these balances.
- **Provision for accumulated absences** - You calculate your accrual for untaken holiday and employment benefits at the year-end based on returns completed by managers.
- **Investment valuation** - You have estimated the value of the Council's investment in Birmingham Airport based on information provided by partners and valuation experts. We have also considered this above.

We will ask you to represent to us that you are satisfied with the assumptions made in arriving at these judgements and estimates in the accounts.

Supplementary matters

Trading accounts

Last year we reported that your trading areas, particularly Catering and Cleaning services, were consistently reporting large surpluses. Although these areas are not material to our audit, they are an area of concern because surpluses could represent a transfer of resources between services. We raised this with the Section 151 Officer who agreed to look into this area in order to ensure that trading income and expenditure, including the apportionment of valid overhead costs, is appropriately recorded.

We understand that this work did not take place during the year but that an Assistant Director is due to explore this issue in the coming months.

During 2011/2 another large surplus position (£2.6m) was recorded.

	2009	2010	2011	2012
Year Ending 31 March	(Surplus) / Deficit	(Surplus) / Deficit	(Surplus) / Deficit	(Surplus) / Deficit
	£'000	£'000	£'000	£'000
External Trading Accounts				
Markets	0.1	0.4	-	(0.2)
Internal Trading Accounts				
Building Works Maintenance	-	-	-	-
Cleaning of Buildings	(0.4)	(0.5)	(0.4)	(0.5)
Ground Maintenance	(0.2)	(0.25)	(0.2)	(0.2)
Street Cleaning	(0.1)	(0.1)	(0.1)	0.1
Schools and Welfare Catering	(1.0)	(1.35)	(0.9)	(1.3)
Other Catering	-	-	(1.3)	-
Transport Services	(0.7)	(1.0)	0.3	(0.7)
Former DSO Depots	0.2	0.1	-	0.2
	(2.2)	(3.2)	(2.6)	(2.4)

Management representations

The final draft of the representation letter that we are requesting management and those charged with governance to sign is attached in Appendix 2.

This includes specific representations to confirm that:

- The Equal Pay provision represents the Council's best estimate of the most likely future costs to the Council and that no other additional or contradictory advice has been received and not shared with us.
- The inclusion of the Council's investment in Birmingham Airport Holdings Ltd at £18.6 million is appropriate.
- The Council has considered indicators of impairment and is satisfied that there are no indicators that the Council's asset base has been materially impaired.
- The Council is satisfied that using Major Repairs Allowance as an estimate for depreciation of council dwellings in the Housing Revenue Account is reasonable.
- The general ledger system is complete and that there are no material differences between the assets recorded on the Property Services Database and those recorded on the general ledger system (FMIS), that is used to populate the financial statements.

Going Concern

There were no material uncertainties related to events and conditions that may cast significant doubt on your ability to continue as a going concern. We have concluded that in overall terms you have sufficient resources available to meet your commitments for at least a 12-month period after the projected date of our audit opinion. We do not think there are any material uncertainties related to events and conditions that may cast significant doubt on your ability to continue as a going concern.

The use of the going concern assumption is appropriate in the preparation and presentation of the financial statements.

Audit independence

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals.

Employment of PricewaterhouseCoopers staff by the Group

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Group.

Services provided to the Group

The audit of the consolidated financial statements is undertaken in accordance with the UK Firm's internal policies. The audit engagement is subject to an independent partner review of all significant judgements taken, including our reporting to the Audit Committee and a review of the annual report. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the consolidated financial statements, PwC has also undertaken other work for the Group. We confirm our independence and overall assessment of threats and safeguards in the 'fees' section below.

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2012 is included on page 18. In relation to the non-audit services provided, none included contingent fee arrangements.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Rotation

Rotation of audit engagement partners, key partners involved in the audit and other staff in senior positions is reviewed on a regular basis by the lead audit engagement partner. This includes partners and staff involved in the audit of the group entity and any component's of the group.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Group's board, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Audit Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Accounting systems and systems of internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the Annual Governance Statement.

We have considered the control issues identified during the audit and while we have concluded that no issues were identified that would materially impact on our accounts audit, we have set out in the section ‘Control issues’ a small number of recommendations in relation to control issues identified during the year.

Annual Governance Statement

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

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE ‘Delivering Good Governance in Local Government’ framework and whether it is misleading or inconsistent with other information known to us from our audit work.

We identified that the AGS made no reference to the report on the proposed strategic partnership with Axon Solutions Ltd. We considered this matter to have remained a significant governance issue for the Council during 2011/12 and raised the omission during the 6 July Audit Committee. The Assistant Director-Corporate Services committed to report back to the Audit Committee on this matter.

We have subsequently concluded that lessons have been learnt from the Axon Programme and that no further action is required by us with regard to the proposed partnership with Axon. Further detail on this conclusion is provided in the section ‘Learning the lessons from Axon’ on pages 13 and 14. We are therefore not minded to challenge the Council’s conclusion that the matter was not a significant governance issue during 2011/12 and, therefore, does not require inclusion in the AGS.

We also met with the Section 151 Officer and other colleagues to discuss two other areas where we felt that the Annual Governance Statement could be strengthened. It was agreed that in future periods the AGS will contain:

- A more detailed action plan for the significant governance matters identified; and
- A clearer statement as to what extent the Council’s systems of internal control include Wolverhampton Homes whose significant activity falls within the Council’s group boundary.

West Midlands Pension Fund

We also audit the accounts of the West Midlands Pension Fund. Our Pension Fund Audit Plan and matters concerning our audit of these accounts are reported to the Superannuation Committee.

We can confirm that our audit of these accounts is completed (subject to completing our final internal review procedures and reviewing a final version of the annual report) and that;

- We have identified no material weaknesses in internal control;
- There are no significant or material unadjusted misstatements identified during the course of our audit; and
- There are no accounting issues or issues concerning accounting performance to bring to your attention.

We therefore anticipate being able to provide an unqualified opinion on the Pension Fund accounts.

Economy, efficiency and effectiveness

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with guidance issued by the Audit Commission, in 2011/12 our conclusion is based on two criteria:

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

As in 2010/11, we have determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. Our audit plan identified the following particular areas of focus:

- The Medium Term Financial Strategy (MTFS) and savings requirements;
- Procurement; and
- Learning lessons from proposed partnership with Axon Solutions Ltd.

The main points of our work in these areas have been detailed below.

Savings and Financial Standing

Our audit plan highlighted specific value for money risk in relation to your savings requirement and financial plans over the next few years. We agreed in the audit plan that we would review your MTFS, comparing it to others, and also review your management arrangements.

Risk	Work performed and conclusion
<p>The Medium Term Financial Strategy and savings requirements</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 £72.4 million over the next five years.</p> <p>This represents a significant financial challenge.</p> <p>The Council has plans in place to deliver £49.4 million of efficiency savings over this period and has a further savings requirement therefore of £23 million.</p> <p>There are a number of risks associated with the MTFS including the following:</p> <ul style="list-style-type: none"> • Identified savings options may not be achieved; • Further efficiency savings may not be identified; • Spending may exceed budgets and/or income may fall short of budgets; • Inflationary pressures may increase; • Demand for council services may exceed estimates; and • Future finance settlements may vary from current assumptions. <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>Our work in this area is nearing completion. We have:</p> <ul style="list-style-type: none"> • reviewed your updated MTFS and its key assumptions; • benchmarked your inflation, growth and efficiency projections as well as your reserve balances; • continued to meet regularly with the Section 151 Officer and the Chief Executive to discuss the Council’s financial position and plans; • reviewed in-year finance reports on a rolling basis and considered their impact on budgets and plans; and • undertaken a high level assessment of the strength of your existing plans to deliver savings and efficiencies. • considered the findings of our detailed testing on the Council’s estimates, provisions and journals undertaken as part of our final accounts audit work. None of our findings in these areas have a significant impact upon the Council’s financial plans. <p>We provided our findings on the MTFS to the Section 151 Officer and understand that our resulting report will be presented to the same Audit Committee as this report so have not included the details here. Our work led us to conclude that:</p> <ul style="list-style-type: none"> • the assumptions you used in setting your MTFS are broadly in line with other similar authorities; • we identified no significant concerns and there were no areas where further risk based audit work was required; and • we identified no issues that would lead to an unqualified value for money conclusion.

Procurement

Risk	Work performed and conclusion
<p>Procurement</p> <p>The Council has identified that its procurement processes require strengthening and work is ongoing to ‘transform’ the contract life cycle. 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. 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. There is also a risk that planned developments in the control environment surrounding procurement and contracts are not delivered.</p>	<p>During the period we have met with and the Procurement Transformation Programme Manager and also the Section 151 Officer. We have also reviewed project documentation such as programme ‘highlight reports’.</p> <p>Our work confirmed that the Council has made progress and has not identified any significant concerns that would require further risk based audit work at this time. An updated contracts register has been put in place, the team has been strengthened and external expertise has been used to support the Council’s efforts to identify and reverse contract ‘value leakage’.</p> <p>The pace of progress in this area has however been slower than anticipated by the Council, largely as a result of competing demands placed on key senior management. We understand that the Council has identified this and that plans are in place to further bolster the procurement team.</p> <p>Your medium term financial plans currently identify procurement related ‘savings opportunities’ of £12.4 million over the next three years. Our view is that this is a prudent estimate of the size of the opportunity available through best practice procurement practice and that the ‘size of the prize’ in this area is potentially considerable. In order to deliver any significant savings in this area however our view is that further work is required. It is therefore important that the Council renews its efforts to improve its procurement related processes and performance.</p> <p>We also previously recommended that the Council’s Internal Auditors undertake a follow up review of its previous findings in this area. We understand that plans are in place for Internal Audit to revisit this area during the 2012/13 financial year.</p>

Learning the lessons from Axon

Risk	Work performed and conclusion
<p>Axon</p> <p>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. The Council has recently received a report of recommendations on this matter which it has shared with us.</p>	<p>As planned, in February 2012, we met privately with the review team and in doing so confirmed that the original terms of reference had been covered.</p> <p>In June / July the Chief Executive updated us on the developments regarding the Council IT replacement project and its broader Shared Service Transformation Programme. These developments, and the steps taken by the Council to get the management of this project and programme right, were clearly relevant to the steps the Council’s was taking to assure itself that lessons had been learnt from Axon.</p> <p>We therefore agreed to undertake an ‘audit health check’ of the Shared Service Transformation Programme. In undertaking this health check we:</p> <ul style="list-style-type: none"> • considered the set up of the programme; • reviewed key project documentation; • met with the Programme team;

	<ul style="list-style-type: none"> • reviewed key areas of the programme including : <ul style="list-style-type: none"> ○ Governance and Reporting ○ Stakeholder Management ○ Scope definition ○ Risk and Issue Management ○ Planning • discussed with Internal Audit their assurance activities to date on the Programme; and • reviewed the Council’s ‘lessons learnt action tracker’ which evidenced how this programme was responding to the recommendations set out by Patricia Hughes produced in response to the aborted Axon partnership. <p>We have recently completed this work and have concluded that the Council:</p> <ul style="list-style-type: none"> • has robust project and risk management arrangements in place for the Shared Service Transformation Programme; • has plans in place for the development of an effective ‘assurance framework’ over the lifecycle of the Programme; and • has clearly evidenced, in practice, that lessons have been learnt from the Axon Programme. <p>We have therefore concluded that no further action is required by us with regard to the proposed partnership with Axon. We have informed the individual who requested from us a public interest report on this matter of our decision.</p>
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Overall Value for Money conclusion

We anticipate issuing an unqualified value for money conclusion.

Internal controls

Reporting requirements

We are required to report to management and those charged with governance any deficiencies in internal control that we have identified during the audit that in our professional judgment, whether individually or in combination, they constitute significant deficiencies. We believe the following matters should be brought to your attention.

Summary of significant internal control deficiencies

Deficiency	Recommendation
<p>Completeness of Fixed Asset Register Corporate Finance has not always been advised of changes to the Council's asset base which has led to historical inaccuracies in the General Ledger system.</p>	<p>The Council ought to continue with the process it has begun to ensure that the Corporate Finance team are advised of any changes to the Council's asset base.</p> <p>Structural changes within the finance team have brought improvements in this area but the new processes should be documented and shared with key personnel within the organisation as a formal protocol to be followed.</p> <p>This protocol should include sufficient checks and controls to ensure that any asset disposals require approval or acknowledgement by finance prior to completing a disposal.</p>
<p>Opening balances Members of the Corporate Finance team are able to make changes to the General Ledger after the accounts have been closed and approved.</p> <p>This can lead to difficulties reconciling prior year closing balances to current year opening balances.</p>	<p>The council should strictly apply the existing control that the general ledger should not be reopened for entries after any audit adjustments have been entered and the accounts approved.</p>

Risk of fraud

We discussed with the Audit Committee their understanding of the risk of fraud and corruption and any instances thereof when presenting our Audit Plan.

In presenting this report to the Audit Committee we seek members' confirmation that there have been no changes to their view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Although it is not our primary responsibility to detect fraud, our audit procedures seek to identify material misstatements resulting from fraud. We included two fraud risks in our audit plan and summarise our audit findings below:

Audit plan risk	Examples of how this could occur	Audit Update
<p>Fraud in revenue recognition (of income and expenditure)</p> <p>Under ISA (UK&I) 240 there is a 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 a material misstatement in the reported revenue position.</p> <p>Given that the Council is experiencing increased pressured on many of its budgets as economic conditions have worsened, there is the potential for budget holders to feel under more pressure to push costs into future periods, or to miscode income and expenditure.</p>	<p>In any organisation there is a risk of incorrectly recognising either revenue or expenditure.</p> <p>The incentive may be derived from financial pressure or the need to operate within budget.</p> <p>For example, fraud could manifest itself through:</p> <ul style="list-style-type: none"> • Recognising income in an incorrect period; • Raising provisions against accounts receivable which are not reasonable; or • Raising accruals which do not relate to expenditure which has occurred in the year to date. 	<p>As planned we have:</p> <ul style="list-style-type: none"> • evaluated the work of internal audit relating to the income, debtors, expenditure, creditors and payroll business cycles; • considered the design and effectiveness of key controls; and • reviewed the Council's draft accounting policies relating to income and expenditure. • tested in detail a risk based sample of the income and expenditure balances. • tested a sample of journal entries to ensure they are appropriate and are supported. • tested the cut off of income and expenditure at the 31 March 2012. • reviewed key accounting estimates for revenue, expenditure and provisions. <p>Based on our audit work have concluded that:</p> <ul style="list-style-type: none"> • systems are generally operating effectively; • we have identified no significant or material weaknesses; and • there are no issues that should impact on our planned audit approach.
<p>Fraud and management override of controls</p> <p>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed</p>	<p>There will always be a risk of management overriding controls in any organisation.</p> <p>Typically this might occur where segregation of duties have broken down or collusion is present. The sort</p>	<p>As planned we have:</p> <ul style="list-style-type: none"> • evaluated the work of internal audit; • considered the design and effectiveness of key controls within key financial systems (such as cash, creditor payments and payroll); • reviewed the Council's draft accounting policies;

<p>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>of areas which are susceptible to this type of fraud include:</p> <ul style="list-style-type: none"> • Manual journals; and • Key estimates and assumptions such as asset valuations, provisions and accruals. 	<ul style="list-style-type: none"> • reviewed the Council’s processes for raising and approving journals; • undertaken detailed testing of those IT systems which underpin the Council’s accounts; and • tested financial system access controls. • understood the processes involved with raising journals and selecting a risk based sample for testing. • tested the appropriateness of journal entries and other adjustments; • reviewed accounting estimates for bias (including provisions, asset valuations and debtor/creditor balances). • tested in detail the Council’s year end bank reconciliation focussing on any unusual items. • applied unpredictable procedures when performing detailed testing. <p>Based the work set out above we have:</p> <ul style="list-style-type: none"> • identified no significant or material weaknesses; and • concluded that there are no issues requiring the attention of the Audit Committee in this area.
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Fees update

Fees update for 2011/12

We set out below an analysis of our fees.

	2011/12 Outturn	2011/12 per Plan	2010/11
Core audit fee: Accounts and Value for Money	418,500	418,500	425,000
Additional agreed risk based audit work:			
Property, Plant and Equipment Valuation	11,500	11,500	7,314
Equal Pay and Single Status	9,500	9,500	0
Closedown Plans	15,500	15,500	0
Investment in Birmingham Airport Holdings Ltd	1,000	0 - 2,250	0
Changes to Accounting for Heritage Assets	1,000	1,000	0
Savings Plans	5,500	5,500	0
Procurement	2,000	2,000	4,631
Axon	14,500	14,500	15,000
IFRS additional support	0	0	20,546
Internal control weaknesses	0	0	15,000
Extended final accounts timetable	0	0	58,871
System changes and redesign	0	0	10,000
Other emerging risk based work	<u>11,500</u>	<u>20,000</u>	<u>5,265</u>
Subtotal	72,000	79,500 - 81,750	136,627
Total	490,500	498,000 - 500,250	561,627

The above table shows that our total final outturn fee was £490,500 compared to an estimated audit fee range per our Audit Plan of £498,000 - £500,250. This compares to total audit fees of £561,627 in the prior year.

Our Audit Plan included a budget for potential 'other' targeted audit work of £20,000 to address any further emerging risks identified during the audit. We outlined earlier in this report that as a consequence of in year developments, we had a number of addition meetings with the Chief Executive, Director of Delivery and Section 151 Officer to discuss the Council's IT replacement programme. We subsequently completed a health check of the Council's Shared Service Transformation Programme. The fees for this work, of £11,500 were discussed and agreed with the Section 151 Officer.

Our fee for certification of grants and claims is yet to be finalised for 2011/12 and will be reported to those charged with governance in March 2013 within the *Grants Report to Management* in relation to 2011/12 grants.

Non audit services

We confirm to you that we have appropriate safeguards in place to maintain our audit independence.

In addition to the statutory services provided as your Appointed Auditor, PwC has, during the year, provided a small number of non-audit services which fell outside of the Code of Audit Practice.

These services, and the associated fees (excluding VAT), were:

- Strategic appraisal of property portfolio options and business case development for the office portfolio. The fee for this work was £121,107.
- Exploring New Financial Models to Invest in Housing. The fee for this work was £9,000.
- VAT advice. The fee for this work was £27,000.

We confirm to you that we have appropriate safeguards in place to maintain our audit independence.

Appendices

Appendix 1 - Audit reports issued in 2011/12

The following table outlines the audit reports that have been issued or are due to be presented in year:

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

Appendix 2 - Letter of representation

PRICEWATERHOUSECOOPERS LLP

Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of Wolverhampton City Council (the “Council”) including the consolidated financial statements of the Council and its subsidiaries (together the “group”) for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the Statement of Accounts of the Council gives a true and fair view, and has been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice. Subsequent references in this letter to “the Statement of Accounts” refer to both the financial statements of the Council and the consolidated financial statements of the group.

My responsibilities as Assistant Director - Corporate Services (Section 151 Officer) for preparing the financial statements are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the Council. I also acknowledge that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of Wolverhampton City Council and the group with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Financial Statements

- I have fulfilled my responsibilities, for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- Significant assumptions used by the Council and group in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the financial statements for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Information Provided

I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you (the Council's auditors) are aware of that information.

I have provided you with:

- Access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters, including minutes of meetings;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the group from whom you determined it necessary to obtain audit evidence.

So far as I am aware, there is no relevant audit information of which you are unaware.

Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

I have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

- Management;
- Employees who have significant roles in internal control; or
- Others where the fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council and group's financial statements communicated by employees, former employees, analysts, regulators or others.

I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Council and the group conducts its business and which are central to the Council's and the group's ability to conduct its business or that could have a material effect on the financial statements.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the financial statements.

West Midlands Pension Fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

Related party transactions

I confirm that we have disclosed to you the identity of the Council and group's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits

I confirm that the Council has made you aware of all employee benefit schemes in which employees of the Council and the group participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Council and the group have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities in respect of any relevant taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest but have disclosed, in Note 11 c to the Statement of Accounts, the Council's ongoing communications with Her Majesty's Revenue and Customs (HMRC) as a result of enquiries regarding aggregation of earnings.

Pension fund assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2012, have been taken into account or referred to in the financial statements.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2012 have been properly valued and that valuation incorporated into the financial statements.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the Council, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the financial statements have been disclosed to you.

Pension fund registered status

I confirm that the West Midlands Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

Bank accounts

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the West Midlands Pension Fund.

Private Finance Initiatives

Other than the following projects the Council does not have plans to enter into any further schemes that fall under the Private Finance Initiative accounting rules which might affect the consolidated financial statements for the 2011/12 year:

- The Wednesfield Leisure PFI; and
- The Waste Disposal Contract.

No new information has come to light during the year that would require an amendment to the way we account for these arrangements, or the resulting financial disclosures.

Accounting Estimates

Regarding accounting estimates that were recognised in the financial statements:

- The Council has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the;
- Measurement processes were consistently applied from year to year;
- The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures;
- Disclosures related to accounting estimates are complete and appropriate under the Code; and
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

Financial Instruments

All embedded derivatives have been identified and appropriately accounted for under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Provisions

Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the financial statements and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the Council's and the group's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the financial statements.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the consolidated financial statements. The provision of £30 million that we have included in our accounts for the potential liability for equal pay and back pay claims complies with International Accounting Standard (IAS) 37 and is supported, in good faith, by the external legal advice received.

This represents our best estimate of the most likely future costs to the Council and we have not received any other additional or contradictory advice that has not been shared with you. The Council has correctly applied the relevant statutory provisions to neutralise the impact of Equal Pay provisions on the General Fund balance.

The Council or the group does not have plans to implement any redundancy/early retirement programmes for which we should have made provision in the financial statements.

Investments

I confirm that all significant assumptions made in relation to fair value measurement and disclosures are reasonable and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council and the group to the fair value measurements or disclosures.

I confirm that we believe the inclusion of the Council's investment in Birmingham Airport Holdings Ltd at £18.6 million is appropriate because:

- this reflects the latest valuation of the Ordinary Shares provided as at the balance sheet date as provided by Solihull Council and BDO.
- there remains in place a side agreement which restricts the sale of shares by all seven stake-holding councils and therefore, whilst the valuation given provides a best estimate of a price that could be achieved on the open market (OMV), the restrictions mean that the OMV is always likely to overstate the value that any Council would actually be willing to pay. This is deemed particularly significant in the current economic climate when there is unlikely to be any Council with sufficient spare resources to purchase an additional share in the Airport - especially at an OMV;
- the terms of the work had been agreed by all relevant Appointed Auditors;
- the methods followed are reasonable given the requirements of the Code; and
- the findings are fed by a number of factors and because many of these are judgements, every valuer is bound to make different assumptions but the assumptions taken do not appear unreasonable.

Using the work of experts

I agree with the findings of Solihull Council and BDO, experts in evaluating the Airport Valuation, regarding their valuation of our share of Birmingham Airport Holdings Ltd and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The Council did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Valuation of Property, Plant and Equipment

I have considered indicators of impairment for our Property, Plant and Equipment asset based and am satisfied that there are no indicators that the Council's asset base has been materially impaired.

Depreciation of housing stock

The Council has assessed the impact of using the Major Repairs Allowance as an estimate for depreciation of council dwellings in the Housing Revenue Account and is satisfied that this amount is a reasonable estimate of the amount of depreciation charge for these assets.

Completeness of Fixed Asset records on the General Ledger

I am satisfied that the general ledger system is complete and that there are no material differences between the assets recorded on the Property Services Database and those recorded on the general ledger system (FMIS), that is used to populate the financial statements.

Deficiencies in internal control

I have communicated to you all deficiencies in internal control of which I am aware.

As minuted by the Audit Committee at its meeting on 24 September 2012

.....
Assistant Director - Corporate Services (Section 151 Officer)
For and on behalf of Wolverhampton City Council

Date

Appendix 3 – Other risks

Risk Assessment

We reported our planned audit approach to you in our 2011/12 Audit Plan. This document set out the risks to be addressed as part of the audit and the work we planned to do in response to those risks. We reported progress against the audit plan in our progress report in June and have provided updates on the majority of the risks identified in the body of this report.

We have summarised the remaining risk; our responses and our conclusions in the table below:

Risk	Work performed and conclusion
<p>Valuation of properties</p> <p>Property, plant and equipment (PPE) is the largest balance in 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"> • asset valuation data may be inaccurate or incomplete; • the Council's valuation assumptions may not be appropriate; • assets' actual market value may fluctuate materially but may not have been re-valued in the accounts; and • capital expenditure may not be accurately allocated between enhancing and non-enhancing. 	<p>We provided feedback during our interim audit on the Council's proposed approach to valuing properties in the 11/12 accounts. We can confirm that the Council followed the proposed approach and we have:</p> <ul style="list-style-type: none"> • reviewed the Council's draft accounting policies with respect to the measurement and valuation of property, plant and equipment; • used a member of PwC's valuations team to review a sample of the valuations completed by the Council's valuer in 2011/12; • agreed, for a sample of valuations completed the source data used to supporting records; • tested a sample of the Council's additions and disposals during the year; • reviewed the accounting entries posted to reflect the market value of assets revalued during the year; and • evaluated a paper completed by the Council to show that the value of the Council's assets not valued in year was materially accurate. <p>Based on the work we have performed we found two issues to bring to the attention of the Audit Committee:</p> <ul style="list-style-type: none"> • The balance reflected as impairments in the draft accounts, which is explained further in the section 'Significant audit and accounting matters' above. • The accumulated depreciation on assets revalued during the year had not been removed from the fixed asset balances. This caused an understatement of the net book value of the revalued fixed assets of £485k. The journal entries to correct this balance have been posted by the Council.

Risk	Work performed and conclusion
<p>Equal Pay and Single Status</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"> the arrangement may not provide value for money outcomes for the Council; financial decisions may not be appropriately reviewed and approved in line with the Council’s policies; the control environment surrounding any payments may not be robust; and payments and / or liabilities recorded in the financial statements may not be accurate and / or complete. 	<p>Our findings on the Equal Pay provision and Single Status are set out in detail in the section ‘Significant audit and accounting matters’ above. During our audit we have:</p> <ul style="list-style-type: none"> met with the Deputy S151 Officer during the year to keep updated on developments regarding the Council’s efforts to settle its outstanding equal pay liabilities; discussed with the Deputy S151 Officer and understood the rationale behind increasing the provision during the year; reviewed reports sent to the Equal Pay Members Reference Group; assessed working papers provided by the Council and the Council’s lawyers to corroborate the movement in the provision from the prior year; and written to the Council’s lawyers and obtained legal representation confirming our understanding behind the estimated value of the provision. <p>Based on the work we have performed, we have not identified any issues with this balance.</p> <p>In satisfying ourselves that the Council’s arrangements for managing single status we have also considered the Council’s project and risk management arrangements.</p> <p>We reviewed key project documentation (such as project update report, risk registers and the minutes of key governance meetings). We also met with Internal Audit and the Section 151 to understand what input Audit and Finance were having on the programme management.</p> <p>Our work identified no issues. Project governance structures have been put in place and are operating and procedures to manage risk are in place. Internal Audit have provided ongoing assurance to this programme and Finance appear to have had the input and access that they need.</p>
<p>Changes to Accounting for Heritage Assets</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>We have reviewed the Council’s procedures for identifying, valuing and disclosing its heritage assets which appear, in principle, to be reasonable.</p> <p>However, we did identify two assets above the Council’s self-imposed de-minimis threshold that had not been capitalised and included within the heritage asset balance. The Council has agreed to adjust for the omissions in the final statement of accounts. The total impact is to increase Heritage Assets by £356k.</p> <p>We have agreed the valuation of a sample of heritage assets to third party insurance documentation.</p> <p>We have reviewed the accounting entries and related disclosure noted in the draft accounts and considered them against relevant accounting standards. The Council has chosen to present minimal information regarding Heritage Assets after concluding that they are immaterial to the accounts. We are not minded to challenge this conclusion.</p>

Appendix 4 – Recent PwC Publications

As part of our regular reporting to you, we plan to keep you up to date with the emerging thought leadership we publish. The PricewaterhouseCoopers Public Sector Research Centre (PRSC) produces a range of research and is a leading centre for insights, opinion and research on best practice in government and the public sector. The reports of the Public Sector Research Centre can be accessed at <http://psrc.pwc.com/index.html>. We have highlighted some recent publications that may be of interest to the Council below:

Transforming the citizen experience, One Stop Shop for public services

Reforms in the public sector which are aimed at improving service delivery have received considerable focus over the last decade.

Driving this focus is an increased demand for governments to find ways of improving the efficiency and effectiveness of its service. Delivering on these demands is prompting governments to adopt citizen centric service delivery models, which improve the citizen and customer experience.

The solution? Transforming service delivery through a 'One Stop Shop', giving citizens and customers a single access point to information and service transactions.

Above the parapet

Above the Parapet: Where Finance needs to position itself in the public sector continues PwC's research into the role of Finance in the public sector, examining the trends, issues and the changing environment faced by finance directors.

This report, the 4th in an annual series, identifies how the finance function manages itself in the public sector, how this differs from private sector comparisons and how, over the last four years, finance directors have demonstrated a real desire to improve the performance and capability of their functions. Now, in 2012, the time has come for Finance to firmly put its head above the parapet and make sure that it really does operate as an equal business partner.

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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