

Wolverhampton City Council

**OPEN INFORMATION ITEM**

Audit Committee

Date **17 DECEMBER 2012**

Originating Service Group(s)

**DELIVERY**

Contact Officer(s)/

**KEITH IRELAND**

Telephone Number(s)

**4500**

Title

**ANNUAL AUDIT LETTER 2012/13 - REPORT OF  
PRICEWATERHOUSECOOPERS**

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**SUMMARY**

That the report prepared by PricewaterhouseCoopers be noted.

## **1. PURPOSE AND BACKGROUND**

1.1 PricewaterhouseCoopers' (PwC) annual audit letter is a public document which summarises the results of their 2011/12 audit for members of the Council and other stakeholders. PwC have already reported the findings from other work to those charged with governance in the following reports:

- External Audit Update Report (June 2012);
- Audit report for the 2011/12 financial statements, incorporating the Value for Money conclusion;
- Report to those charged with Governance (ISA (UK&I) 260); and
- Annual Certification Report.

The matters reported in the letter are those PwC consider to be the most significant for the Council.

1.2 Representatives from PwC will be in attendance at this meeting to present their report and respond to questions.

## **2. FINANCIAL IMPLICATIONS**

2.1 The report provides assurances on the arrangements the Council has in place to ensure effective stewardship and accountability for resources at a time of unprecedented financial pressures. [DM/23102012/T]

## **3. LEGAL IMPLICATIONS**

3.1 Statutory authority for the external auditor role set out in paragraph 1.1 of this report which provides external accountability and control is currently contained in the Audit Commission Act 1998

3.2 The existing audit regime, which still applies, is under review. The draft Local Audit Bill published in July 2012 contains proposals to abolish the existing regime and introduce a new local audit framework. [FD/20112012/Y]

## **4. EQUALITY IMPLICATIONS**

4.1 There are not direct equality implications arising from this report.

## **5. ENVIRONMENTAL IMPLICATIONS**

5.1 There are no direct environmental implications arising from this report.

## **6. SCHEDULE OF BACKGROUND PAPERS**

None

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*Government and Public Sector*

# *Wolverhampton City Council*

Annual Audit Letter

2011/12 Audit

October 2012



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

18 October 2012

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2011/12 audit. We hope it provides a useful source of reference and look forward to presenting it to Members on 5 November 2012.

Yours faithfully

A handwritten signature in black ink that reads 'Richard Bacon' with a horizontal line underneath.

Richard Bacon

PricewaterhouseCoopers LLP

***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 letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to directors or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any director or officer in their individual capacity or to any third party.*

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PricewaterhouseCoopers LLP, Cornwall Court, 19 Cornwall Street, Birmingham B3 2DT  
T: +44 (0) 121 265 5000, F: +44 (0) 121 265 5050, [www.pwc.co.uk](http://www.pwc.co.uk)

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# Introduction

## The purpose of this letter

This letter is a public document which summarises the results of our 2011/12 audit for members of the Council and other stakeholders.

We have already reported the findings from our work to those charged with governance in the following reports:

- External Audit Update Report (June 2012);
- Audit report for the 2011/12 financial statements, incorporating the Value for Money conclusion;
- Report to those charged with Governance (ISA (UK&I) 260); and
- Annual Certification Report.

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

## Scope of work

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

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. Our 2011/12 audit work has been undertaken in accordance with the Audit Plan that we issued in January 2012.

The next section of this report sets out how, in practice, we have met our responsibilities.

# Audit Findings

## Accounts

We audited the Council's accounts in line with approved Auditing Standards. We reported our findings to the Audit Committee on 24 September 2012 in our '2011/12 Report to those charged with governance (ISA (UK&I) 260)'. We issued an unqualified audit report on 27 September 2012.

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

- 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;
- 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;
- Key contacts in the finance team and elsewhere were available during the audit and responded readily to our audit questions and requests for information;
- We have not identified any material deficiencies in internal control;
- The most significant accounting matter related to the Council's 5-year exercise to comprehensively reconcile the valuation of its fixed assets as recorded on its property management database (SAM) with that recorded on the general ledger (FMIS). 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. Originally the Council proposed within its draft financial statements to account for all these as impairments. As a result of the audit, further work was however undertaken by the Finance Team. This resulted in a more appropriate accounting treatment whereby a large amount of the amendment was treated as an in-year disposal. The amount to be met by council tax payers was unaffected by these amendments; and
- The Council has (as in previous years) included a provision in the accounts to reflect the most probable liability relating to equal pay and back pay claims. Based on legal advice it has received on this matter, the Council has concluded that the most probable liability is £30 million. We have received written representation from the Councils' legal advisors and Section 151 Officer on this matter, and have therefore been able to conclude that the provision of £30 million is reasonable and meets relevant financial reporting standards.

## Economy, efficiency and effectiveness

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

In accordance with guidance issued by the Audit Commission, in 2011/12 our conclusion was 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.

We determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. Our work focused on your medium term financial plans and your savings targets and your plans for improving procurement processes. We also considered what evidence there was that lessons had been learnt from the Council's proposed partnership with Axon Solutions Ltd.

We issued an unqualified value for money conclusion on your arrangements for securing adequate Use of Resources on 27 September 2012.

## Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted on 5 October 2012, meeting the required deadline. We found no areas of concern to report as part of this work and concluded that it was consistent with the financial statements.

## Grant Claims and Certification

We presented our most recent Annual Certification Report for 2010/11 to the Audit Committee in April 2012. We certified 16 claims and returns worth over £258 million. In eight cases a qualification letter was required to set out significant issues arising from the certification of the claim. An action plan was agreed with management in response to these findings.

## Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work.

As a result of our work in this area we agreed with the Council that in future periods the AGS should contain a more detailed action plan in response to the significant governance matters identified within the statement. We also agreed that a clearer indication as to the extent to which the Council's systems of internal control includes Wolverhampton Homes would further strengthen the statement.

## Other responsibilities

We are required to determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act. This includes a requirement to consider whether, in the public interest, we should make a report on any matter coming to their notice in the course of the audit.

In our two previous audit letters (dated November 2010 and November 2011) we have commented upon the Council's lack of progress in reviewing the matters surrounding the proposed partnership with Axon Solutions Ltd, which date back to 2008.

We have previously reported that in March 2011, following a detailed scoping exercise, the Council commissioned an independent review and that we reviewed the scope of this work and identified no concerns. Since our previous audit letter the Council received a report of recommendations on this matter in December 2011.

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. In June / July 2012 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.

We therefore completed an 'audit health check' of the Shared Service Transformation Programme. We concluded that the Council:

- 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.

We have therefore concluded that no further action is required by us with regard to the proposed partnership with Axon.



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## Audit Completion

We are required to issue a certificate when we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

We anticipate being able to issue our completion certificate once we have been able to review the West Midlands Pension Fund Annual Report, which in accordance with deadlines set by the Local Government Pension Scheme Regulations (2008), we expect to do prior to 1 December 2012.

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

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#### **Other Matters**

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

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