

Wolverhampton City Council

OPEN INFORMATION ITEM

Audit Committee

Date **11 March 2013**

Originating Service Group(s)

DELIVERY

Contact Officer(s)/

M TAYLOR

Telephone Number(s)

6609

Title/Subject Matter

EXTERNAL AUDIT PLAN 2012/13

SUMMARY

That Councillors serving on the Audit Committee note the Audit Plan 2012/13 from the Council's external auditors, PricewaterhouseCoopers.

1. PURPOSE AND BACKGROUND

- 1.1 The purpose of this report is to update Members on the Annual Audit Plan 2012/13 issued by the Council's external auditors PricewaterhouseCoopers (PwC).
- 1.2 Representatives from PwC will be in attendance at the meeting to present their Annual Audit Plan 2012/13 and respond to any questions from Members of the Committee.

2. DETAILS

- 2.1 The Annual Audit Plan, which is attached at Appendix 1, explains PwC's responsibilities as the Council's auditors, including the final accounts audit, and how they plan to discharge them during 2013/14.

3. FINANCIAL IMPLICATIONS

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

[MT/03032013/O]

4. LEGAL IMPLICATIONS

- 4.1 There are no direct legal implications arising from this report.
[MW/01032013/T]

5. EQUALITIES IMPLICATIONS

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

6. ENVIRONMENTAL IMPLICATIONS

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

7. SCHEDULE OF BACKGROUND PAPERS

- 7.1 PwC working papers and file notes.

Wolverhampton City Council

External Audit Plan 2012/13

Government and Public
Sector

March 2013



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

1 March 2013

Ladies and Gentlemen,

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

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

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

Yours faithfully

A handwritten signature in black ink that reads 'PricewaterhouseCoopers LLP'.

PricewaterhouseCoopers LLP

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

Introduction

The purpose of this plan

This plan:

- is required by International Standards on Auditing (ISAs);
- sets out our responsibilities as external auditor under the Audit Commission's requirements;
- gives you the opportunity to comment on our proposed audit approach and scope for the 2012/13 audit;
- records our assessment of audit risks, including fraud, and how we intend to respond to them;
- tells you about our team; and
- provides an estimate of our fees.

We ask the Audit Committee to:

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

Our work in 2012/13

We will:

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

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

Risk assessment

We considered the Council's operations and assessed:

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

Our risk assessment shows:

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

Responsibilities

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

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

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

Scope of the audit

Code of Audit Practice

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

- Accounts including a review of the Annual Governance Statement; and
- The Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

Accounts

The Code requires us to comply with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). We are required to comply with them for the audit of your 2012/13 accounts.

We will issue an opinion stating whether in our view:

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

In our audit report on your accounts, we are also required to report by exception where, in our view, the Annual Governance Statement does not comply with the requirements of "Delivering Good Governance in Local Government: Framework" published by CIPFA/SOALCE (originally in June 2007 and recently updated in December 2012) or is misleading or inconsistent with information we are aware of from our audit.

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

Use of resources conclusion

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

As in 2011/12, we will be carrying out sufficient work to allow us to reach a conclusion on your arrangements based on your circumstances. In accordance with guidance issued to us by the Audit Commission our work will focus on the following two criteria:

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

Local government pension fund

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

Other reporting requirements

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

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

Audit approach

Introduction

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

We plan our work to have a reasonable expectation of detecting fraud where the potential effects would be material to the financial statements. We consider any significant risks of fraud, taking into account management control, which may have a material impact on the financial statements, and adapt our audit procedures accordingly. We also design procedures to address the risk of fraud due to management override of controls.

We understand and evaluate your internal control environment and, where appropriate, validate controls that we place reliance on. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and analytical procedures.

We rely on internal audit's work wherever appropriate, and have a continuous dialogue with the team throughout the year. We receive copies of their reports, and consider how findings affect our audit. Our information technology (IT) specialists review your general IT controls focusing on access and operation controls in and around your Financial Management Information (FMIS) and Northgate systems.

Significant and other audit risks

Our risk assessment guides our audit activities. It determines where our audit effort should be focused and whether we can place reliance on the effective operation of your controls. Risks to the accounts and our true and fair audit opinion are categorised as follows:

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

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

- Management override of controls:

“Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.” ISA 240 paragraph 31; and

- Revenue recognition:

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

Both these fraud related risks are included in our risk assessment. A summary of the audit risks identified for 2012/13 is set out below, with reference to which element of our audit opinion (accounts or use of resources) these risks relate to. Further information along with our planned audit response is provided on the following pages.

<i>Risk arising</i>	<i>Potential impact upon PwC work</i>		<i>Categorisation for accounts risks</i>
	<i>Accounts true and fair opinion</i>	<i>Use of resources conclusion</i>	
Fraud and management override of controls	◆		● Significant
Revenue recognition (of income and expenditure)	◆		● Significant
Property, Plant and Equipment: Valuation	◆		● Significant
Provision for Equal Pay	◆		● Elevated
Trading Surpluses and internal charging	◆	◆	● Normal
Treasury Management Accounting Practices	◆		● Normal
Savings Plans and the Medium Term Financial Strategy		◆	N / A – Use of Resources
Single Status implementation		◆	N / A – Use of Resources
Shared Service Transformation Programme		◆	N / A – Use of Resources
Restructuring costs		◆	N / A – Use of Resources
Procurement follow up		◆	N / A – Use of Resources
Risk Management and Annual Governance Statement follow up		◆	N / A – Use of Resources

Financial Statements risks

Risk	Risk level	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 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>	<ul style="list-style-type: none"> ● Significant 	<p>We will understand and evaluate internal control processes and procedures as part of our planning work. We will also test the operation of some controls as part of our interim audit visit.</p> <p>We will perform procedures to:</p> <ul style="list-style-type: none"> ● test the appropriateness of journal entries and other adjustments (Note 1); ● review accounting estimates for bias and evaluate any risk of material misstatement due to fraud; ● evaluate the business rationale for significant transactions; ● test exceptional and unusual items highlighted by the Council’s bank account (and other) reconciliations; and ● perform ‘unpredictable’ procedures. <p>We may perform other audit procedures if necessary in response to our audit work.</p>
<p>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 material misstatement in the reported revenue position.</p> <p>Given the current economic and fiscal conditions, the Council continues to experience pressure on many of its budgets. The risk that budget holders feel under more pressure to move costs into future period (or to miscode income and expenditure) is therefore high.</p>	<ul style="list-style-type: none"> ● Significant 	<p>We will understand and evaluate revenue and expenditure controls and:</p> <ul style="list-style-type: none"> ● seek to place reliance on internal audit work on key controls; and ● test key income and expenditure controls to confirm they are operating effectively. <p>We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting.</p> <p>We will also perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk including procedures in relation to:</p> <ul style="list-style-type: none"> ● the appropriateness of journal entries and other adjustments (Note 1); ● income and expenditure ‘cut off’; and ● accounting estimates for income, expenditure, deferred revenues and provisions.

Risk	Risk level	Audit approach
<p>Property, Plant and Equipment: Valuation</p> <p>Property, Plant and Equipment is the largest figure on your Balance Sheet. You value your properties at fair value using a range of assumptions and the advice of internal and external experts.</p> <p>We have to consider how expertise is used, how your processes ensure the balance is fairly stated, and your assumptions.</p> <p>Specific areas of risk include:</p> <ul style="list-style-type: none"> • 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>There have been material adjustments in recent audits relating to PPE valuations. Material amendments were made to the 2011/12 accounts as part of the closedown and audit process - due to differences in the value of assets between the Council's property database and the main financial ledger (FMIS).</p> <p>The Council has strengthened the controls in place in this area. The risk of material misstatement in this area does however remain high because of the above matters.</p>	<ul style="list-style-type: none"> • Significant 	<p>We will review the basis of any asset revaluations undertaken and in doing so consider:</p> <ul style="list-style-type: none"> • the judgements, assumptions and data used; • the reasonableness of any estimation techniques applied; and • the expertise of your internal valuer. <p>Where assets are not re-valued in year we will discuss with you the steps you have taken to ensure that your balance sheet is materially accurate at the year end.</p> <p>We will consider the Council's response to the control recommendations we made in the previous year and determine a rigorous testing approach to ensure the completeness of asset disposals on both the property system and FMIS.</p>
<p>Provision for Equal Pay</p> <p>As in previous years, the Council is expected to include a provision in the accounts to reflect its liability for Equal Pay and back pay claims.</p> <p>Over the last four years the Council has received notification 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.</p> <p>On the basis of the advice provided and the information available the Council concluded that at 31 March 2012 the most probable liability was £30 million. This figure reflected known claims as well as other potential claims.</p>	<ul style="list-style-type: none"> • Elevated 	<p>We will evaluate the accounting policies for recognising associated expenditure and liabilities.</p> <p>We will test whether payments, journal entries and other adjustments in the financial statements relating to Equal Pay are materially accurate and whether they meet relevant financial reporting standards.</p> <p>We will seek confirmation on these matters from the Council's legal advisors.</p> <p>We will review and challenge assumptions made by the Council regarding relevant case law and the associated implications for the Council's provision.</p>

Risk	Risk level	Audit approach
<p>Trading Surpluses and internal charging</p> <p>In 2010/11 we reported that your trading areas, particularly Catering and Cleaning services, were consistently reporting large surpluses within the financial statements.</p> <p>During 2011/12 another large surplus position (£2.6m) was recorded.</p> <p>We have discussed with management the risk that inaccurate charging could represent a transfer of resources between services.</p> <p>The Council is currently undertaking its own review of how it records trading income and expenditure, including how it apportions overhead costs.</p>	<p>● Normal</p>	<p>We will review the outputs of the Council's internal review and consider the implications for the accounts disclosures, our audit and our VfM conclusion.</p> <p>We will discuss with the Section 151 Officer the outcome of this work and agree what, if any, further work is needed by us.</p>
<p>Treasury Management Accounting Practices</p> <p>As a response to the new Housing Revenue Account (HRA) Self-Financing regulations and budgetary pressures on the general fund, the Council has taken the opportunity to develop new methods of calculating interest charges and to revisit the current methods of financing capital expenditure to ensure they remain most appropriate for the Council.</p> <p>The Council has developed new methods for splitting interest costs between the HRA and the General Fund.</p> <p>The Council has also revisited how it calculates and records an appropriate Minimum Revenue Provision (MRP).</p> <p>The adoption of different methods can have a significant impact on the in-year financial outturn and the MTFS for both the general fund and the HRA.</p> <p>As with any accounting change or judgement there is a risk that the new treatment may be in contravention of the relevant accounting standards.</p>	<p>● Normal</p>	<p>We will understand the new methods that are proposed and review them against the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and any other relevant guidance that applies to the sector.</p> <p>We will conclude whether the adoption of the new methods represent a reasonable approach and whether they allow for materially accurate accounting entries to be made in the 2012/13 accounts.</p>

Note 1: Where appropriate we leverage our audit testing to cover multiple ISA requirements. One such example is our Journals testing noted above.

Additional support on your Accounts Closedown Plan

We reported in our 2010/11 'Report to those charged with governance (ISA (UK&I) 260)' that the Council must learn the lessons from the 2010/11 accounts closedown and audit process (when shortcomings in the quality and timeliness of the Council's accounts and working papers delayed the completion of the audit).

There was a significant improvement in accounting performance during 2011/12 which reflected the investment in the Financial Accounts process over the year.

There remains a risk, albeit reduced, that with competing demands for resources in the Corporate Finance team the accounts closedown and audit timetable is not planned, executed and / or monitored effectively during the 2012/13 year or accounts production process.

The Section 151 Officer has therefore requested that we maintain a role in reviewing the Council's controls in this area over the coming months. We will therefore:

- review your closedown plans;
- meet regularly with the Finance Team through the year to monitor the Council's progress in executing its plans;
- meet regularly with the Section 151 Officer to discuss the Council's progress and feedback;
- consider the Council's arrangements for monitoring its closedown plans including any progress reports; and
- feedback our findings to the Section 151 Officer and the Audit Committee.

Other Audit Code responsibilities risks

Risk	Audit approach
<p>Savings Plans and the Medium Term Financial Strategy</p> <p>The Council has recently updated its Medium Term Financial Strategy (MTFS). This shows that the projected cumulative budget deficit amounts to £59.18 million over the next five years and this already assumes the successful delivery of savings amounting to £38.630M over five years and £28.517M over the next two years.</p> <p>This represents a significant financial challenge.</p> <p>We also note that the 2013/14 budget is in balance only after the use of £3.716M of general balances and the successful delivery of £17.3M of savings.</p> <p>There are a number of significant risks associated with the 2013/14 budget and the wider MTFS including:</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>We will review your updated MTFS and its key assumptions. We will benchmark your inflation, growth and efficiency projections as well as your reserve balances. We will consider your financial resources and your assumptions around future income streams. We will feedback our findings to the Section 151 Officer and the Audit Committee.</p> <p>We will meet regularly with the Section 151 Officer and the Chief Executive to discuss the Council's financial position and plans.</p> <p>We will regularly review in-year finance reports, identify key issues and consider their impact on budgets and plans.</p> <p>We will consider the findings of our detailed testing on the Council's estimates, provisions and journals undertaken as part of our final accounts audit work.</p> <p>If any of these findings have a significant impact upon the Council's financial plans we will feedback our findings to you.</p>
<p>Single Status implementation</p> <p>At the time of drafting this plan the Council had not yet implemented an affordable Single Status pay agreement</p> <p>The Council is continuing to work toward reaching and implementing an agreement and a number of key activities and decisions are due to take place prior to the date we expect to issue our VfM conclusion.</p> <p>These activities and decisions could impact our VfM conclusion.</p>	<p>We will review emerging arrangements to consider whether:</p> <ul style="list-style-type: none"> • they provide value for money outcomes for the Council; • financial decisions are appropriately reviewed and approved in line with the Council's policies; and • appropriate legal advice has been received.

Risk	Audit approach
<p>Shared Service Transformation Programme</p> <p>The Council has a very old IT system. Various options for replacement are being sought which could have a significant impact on the accounting arrangements and on value for money at the Council.</p> <p>The programme team is currently focussed on the procurement phase of the Transformation Programme. The team is expecting to sign contracts with the future supplier on the 1st April 2013. The team has divided the procurement phase into a number of stages in order to appropriately evaluate any potential suppliers. The team has also involved a number of stakeholders, including legal advisors. An assurance framework for the procurement phase has been drafted.</p> <p>Procurement exercises of this nature pose a number of risks that need to be carefully managed.</p>	<p>We will consider:</p> <ul style="list-style-type: none"> • how the Council continues to manage risk through the general governance and structure of the Programme and through its general programme controls; • how the Council has built upon those governance and control arrangements we observed in our initial review in September 2012; • how the Council has developed its assurance framework beyond the procurement phase; and • the specific steps taken by the Council to assure itself of (and exercise control over) the procurement phase of the project. <p>We will:</p> <ul style="list-style-type: none"> • Perform a programme health check, through a review of documentation, interviews with the Programme team and attendance at key meetings; • Revisit the findings of our previous review over the key areas of the programme including: <ul style="list-style-type: none"> - Governance and Reporting; - Stakeholder Management; - Scope definition; - Risk and Issue Management; and - Planning. • Review the assurance framework over the life cycle of the programme; • Review the processes the team has gone through in delivering specific stages in the procurement phase, specifically commenting upon: <ul style="list-style-type: none"> - the process followed to conduct the supplier ‘dialogue activity’; - the process followed for the ‘ISDS (invitation to submit detailed solution) evaluation’; and - the preparation activity for the ‘contract award’. <p>We will provide you with a written report on the areas outlined above.</p>
<p>Restructuring costs</p> <p>The Council has incurred costs relating to restructuring and staff changes during 2012/13.</p> <p>We consider the risk of materially misstating these costs to be very low. However, we are required to consider whether the settlements in aggregate or the governance process surrounding the payments would impact our VfM conclusion.</p>	<p>The Strategic Director for Delivery has advised us of the decision making process surrounding a number of the more significant payments to date.</p> <p>We will review your arrangements for ensuring that financial settlements represent value for money. We will also consider the legal advice you have received.</p>

Risk	Audit approach
<p>Procurement follow up</p> <p>The Council has a significant savings target over the medium term that will be a huge challenge to meet. Success is, in no small part, reliant on procurement savings and although we concluded in prior year that the Council had made some progress we did identify that further work was required to deliver significant savings and that the Council should renew its efforts to improve its procurement related processes and performance.</p> <p>We also recommended that the Council's Internal Auditors undertake a follow up review of its previous findings in this area; not only to ensure that basic controls are adequate during significant change, but also to ensure that these controls are being complied with in practice. We understand that Internal Audit is revisiting this area during the 2012/13 financial year.</p> <p>The Interim Head of Strategic Sourcing has since produced a number of reports that have identified further shortcomings associated with the Contracts Database, the use of e-shop, external consultancy support and the viability of planned procurement savings projections.</p> <p>Delays in implementation of procurement initiatives and reductions in the related assumptions about what can be achieved are reflected in the latest MTFS but further slippage or failure to meet savings requirements is a significant risk to the Council that needs to be well managed.</p>	<p>We will continue to meet with key officers in order to understand the Council's progress in delivering its broader transformation plans and, more specifically, those plans relating to the Contracts Database, the use of e-shop, external consultancy support and the viability of planned procurement savings projections.</p> <p>We will consider the interface between the Council's procurement transformation plans and its medium term financial and savings plans.</p> <p>We will review the outcome of Internal Audit's follow up review and consider the Council's arrangements for monitoring its plans, including key governance and reporting arrangements.</p> <p>Where we identify shortfalls in assurance either in the design of new processes or the adherence to formal procedures we will consider what additional work is required and agree that with the Strategic Director of Delivery.</p>
<p>Risk Management and Annual Governance Statement follow up</p> <p>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'.</p> <p>In 2011/12 we identified that the AGS:</p> <ul style="list-style-type: none"> • made no reference to the report on the proposed strategic partnership with Axon Solutions Ltd which we considered to have remained a significant governance issue for the Council during 2011/12; • lacked a clear action plan for the significant governance matters identified; and • lacked a clear 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. <p>We agreed with the Section 151 Officer at the time that the Annual Governance Statement, and the underlying process that fed it, should be strengthened.</p>	<p>We will follow up the recommendations made in prior year that in future periods the AGS will contain:</p> <ul style="list-style-type: none"> • 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. <p>We will also consider the risk identification process that is used to produce the statement and consider whether any governance issues appear to have been omitted.</p>

Materiality

We plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

<i>Type of materiality</i>	<i>What is it used for?</i>
Overall materiality	Our overall materiality for the Council is set at £19.2 million calculated as a percentage of expenditure; this represents the level at which we would consider qualifying our audit opinion and is consistent with the prior year.
Planning materiality	This is the level to which we plan our audit work and identify significant accounts.
De minimis threshold	<p>ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial”. Matters which are clearly trivial those which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.</p> <p>It is not unusual to find relatively small misstatements which should not be of significant concern to you. Our practice is to discuss these smaller misstatements with management, and apply a threshold to the value of individual misstatements that we report to the Audit Committee.</p> <p>We will not report misstatements below the agreed threshold level unless we believe that the nature of the misstatement should be of concern. We include a summary of any uncorrected misstatements identified during our audit in our year-end ISA (UK&I) 260 report.</p> <p>For clarity, where we find systematic issues which are not material but could impact the Council significantly in other ways or in the future, we will report them to you, regardless of the impact on the accounts.</p> <p>In line with the prior year reporting threshold agreed with you we plan to apply a reporting threshold of £100,000.</p> <p>We apply our professional judgement to determine this threshold. The factors which we consider include:</p> <ul style="list-style-type: none"> • the number and amount of prior years’ misstatements, whether corrected or uncorrected; and • the results of our risk assessment. <p>We welcome the Committee’s views on an appropriate level of reporting of errors identified during the audit.</p>

Communications plan and timetable

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

Stage of the audit	Output	Date
Planning	Audit Plan	March 2013
Audit fieldwork	Interim audit	April 2013
	Final audit	July-August 2013
Audit findings	Audit Update Report	June 2013
	<p>ISA (UK&I) 260 report incorporating specific reporting requirements, including:</p> <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 use of resources conclusion 	September 2013
Audit reports	<p>Financial Statements including Use of Resources:</p> <ul style="list-style-type: none"> • Audit opinion; • Use of resources conclusion; and • Opinion on the Whole of Government Accounts return 	September 2013
Other public reports	<p>Annual Audit Letter</p> <p>A brief summary report of our work, produced for Members and to be available to the public.</p>	November 2013

Risk of fraud

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

Auditors' responsibility

Our objectives are:

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

Management's responsibility

Management's responsibilities in relation to fraud are:

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

Responsibility of the Audit Committee

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

Conditions under which fraud might occur

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



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

Your views on fraud

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

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

Audit engagement team

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

Audit Team	Responsibilities
<p>Engagement Partner Richard Bacon 4th year on the audit 0121 232 2598 richard.f.bacon@uk.pwc.com</p>	<p>Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.</p>
<p>Engagement Senior Manager James Howse 7th year on the audit 0121 265 5956 james.howse@uk.pwc.com</p>	<p>Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs.</p>
<p>Engagement Manager Richard Vialard 7th year on the audit 07809 755 784 richard.vialard@uk.pwc.com</p>	<p>Manager responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the VFM conclusion work. Completion of the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter.</p>

Our team members

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

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

Independence and objectivity

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

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

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

Other services provided to the Council

In addition to our audit under the Code, as previously reported to you the Firm is engaged to advise the Council with regard to its estate rationalisation strategy. The Council has requested the Firm to support the next phase of the project which relates to the design of a strategic design brief for the refurbishment of the Civic Centre and the coordination of its pre-tender arrangements. The proposed fee for this work is £85,000 plus VAT. We confirm to you that we have appropriate safeguards in place to maintain our audit independence. As part of our quality controls we have sought and gained approval from the Audit Commission to undertake this work.

Relationships and investments

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

Independence conclusion

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

Audit fees

In setting the fee my team and I have considered the risk-based approach to audit planning as set out in this document. We have also considered the work mandated by the Audit Commission for 2012/13 and the Code of Audit Practice.

I am pleased to report that our proposed fee for the 2012/13 audit has been reduced to £316,900 (excluding VAT). A breakdown of our proposed audit fee for 2012/13, in comparison to the prior year, is shown below:

Audit area	Planned 2012/13 (£)	Outturn fee 2011/12 (£)
Core audit work -including financial statements, value for money conclusion and Whole of Government Accounts (Note 1)	251,100	418,500
Additional local risk based audit work (Note 2)	65,800	72,000
Total (Note 3)	316,900	490,500

Notes

- 1) The Audit Commission's 'Work Programme and Scales of Fees 2012/13' document (which is available on the Commission's website) sets out an expectation that audit fees payable by the audited body will reduce by up to 40% between the 2011/12 and 2012/13 years. Reflecting this, the Audit Commission has published an indicative audit fee level for the 2012/13 financial year of £251,100 for the Council. This indicative fee level was calculated based on our Audit Fee letter dated April 2011 which set out core audit fees for 2011/12 of £418,500. We are pleased to report that our core audit fee for 2012/13 had been reduced in line with this guidance.
- 2) In line with previous years as part of our audit planning process we have tailored a programme of audit work in response to the additional local audit risks relevant to this Council for the period in question. In some areas the risks have reduced since last year and the fee has reduced accordingly. In other areas, the risk remains or has increased and the associated programme of audit work (and hence fee) has remained, or increased, for 2012/13. An analysis of these local considerations, which have been discussed with Council management, is set out in the table overleaf.
- 3) We have based our estimate of fees on the following assumptions:
 - Officers meeting the timetable and content of deliverables, which we will agree in writing;
 - We are able to place reliance, as planned, upon the work of internal audit and we are able to draw comfort from your management controls;
 - No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
 - Sufficient staff are available throughout the course of our work to respond to our queries on a timely basis;
 - There is no significant departure from our pre-agreed timetable;
 - We receive only two sets of accounts to audit; being a draft and a final set with all changes tracked;
 - An early draft of the Annual Governance Statement being available for us to review prior to the final audit;
 - Our use of resources conclusion and accounts opinion being unqualified;
 - There are no core financial new financial systems implemented in year; and
 - You have substantially addressed the issues we have raised in the prior year.

Analysis of local additional audit work

Area of additional risk	2012/13 Plan	2011/12 Outturn
Property, Plant and Equipment: Valuation	10,000	11,500
Provision for Equal Pay	4,000	3,000
Single Status implementation	6,000	6,500
Closedown Plan support	3,000	15,500
Savings Plans and the MTFS	4,000	5,500
Procurement follow up	5,000	2,000
Risk Management and Annual Governance Statement follow up	6,000	0
Trading Surpluses and internal charging	5,000	0
Restructuring costs	7,000	0
Shared Services Transformation Programme	12,800	11,500
Treasury Management Accounting Policies	3,000	0
<i>Axon</i>	0	14,500
<i>Investment in Birmingham Airport Holdings Ltd</i>	0	1,000
<i>Changes to Accounting for Heritage Assets</i>	0	1,000
Total	65,800	72,000

Certification of grant claims

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

In 2012/13, the de minimis threshold below which we are not required to certify individual claims and returns will be £125,000, and the intermediate threshold below which are required to undertake only a light touch review will be £500,000. Above this threshold, certification work will be risk-based, taking account of the Council's overall control environment.

Appendix 1 – Other engagement information

The Audit Commission appoint us as auditors to Wolverhampton City Council and the terms of our appointment are governed by the Code of Audit Practice and the Standing Guidance for Auditors.

There are four further matters not included within the guidance, but which we need to raise with you.

Electronic communication

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

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

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

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

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

Access to audit working papers

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

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or James Chalmers, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

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

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

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

This report has been prepared for and only for Wolverhampton City Council in accordance with the Statement of Responsibilities of Auditors and of Audited Bodies (Local government bodies) published by the Audit Commission in March 2010 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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