



# Audit Committee

## 16 December 2013

<b>Report Title</b>	Annual Audit Letter	
<b>Cabinet Member with Lead Responsibility</b>	Councillor Paul Sweet Governance and Performance	
<b>Accountable Strategic Director</b>	Keith Ireland, Delivery	
<b>Originating service</b>	Delivery/Audit	
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<b>Report to be/has been considered by</b>	N/A	

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### Recommendations for noting:

The Committee is asked to note:

1. The contents of the Annual Audit Letter from the council's external auditors, PricewaterhouseCoopers (PwC).

## **1.0 Purpose**

1.1 PricewaterhouseCoopers' (PwC) annual audit letter is a public document which summarises the results of their 2012/13 audit for members of the Council and other stakeholders.

## **2.0 Background**

2.1 PwC have already reported the findings from other work to those charged with governance in the following reports:

- External Audit Update Report (July 2013);
- Audit Report for the 2012/13 financial statements including the Value for Money conclusion; and
- Report to those charged with Governance (ISA (UK&I) 260).

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

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

## **3.0 Financial implications**

3.1 The report provides assurances on the arrangements the Council has in place to ensure effective stewardship and accountability for resources

[NA/03112013/X]

## **4.0 Legal implications**

4.1 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

4.2 The existing audit regime, described in paragraph [ ] which still applies, is under review. The Local Audit and Accountability Bill ("the Bill") published in July 2012 contains proposals to abolish the existing regime and introduce a new local audit framework.

4.3 This Bill has not yet become law. The Bill was last considered in Parliament on 21 November 2013 and although it is well along its Parliamentary route it still has a number of stages to go before it becomes law.

[JH/05122013/S]

**5.0 Equalities implications**

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

**6.0 Environmental implications**

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

**7.0 Human resources implications**

7.1 There are no direct human resources implications arising from this report.

**8.0 Schedule of background papers**

None

# *Wolverhampton City Council*

*Annual Audit Letter*  
2012/13

Government and  
Public Sector

**October 2013**

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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.*

*An audit is not designed to identify all matters that may be relevant to those charged with governance.*

*Accordingly, the audit does not ordinarily identify all such matters.*

# Introduction

## The purpose of this letter

We are pleased to present to Members our Annual Audit Letter summarising the results of our 2012/13 audit.

We have already reported the detailed findings from our audit work within our ‘Report to those charged with governance (ISA 260)’ document, presented to the Audit Committee in September 2013.

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

## Scope of Work

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

As an administering Authority of a pension fund, you are also responsible for preparing and publishing Accounting Statements for the West Midlands Pension Fund.

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2013 and 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.

We met our responsibilities as follows:

Audit Responsibility	Results
<i>Perform an audit of the accounts and pension fund accounting statements in accordance with the Auditing Practice Board’s International Standards on Auditing (ISAs (UK&amp;I)).</i>	<p>▶ We issued an unqualified audit report on your financial statements (including those of the pension fund).</p> <p>Key points from our audit of the accounts can be found in the section ‘Audit Findings’.</p>
<i>Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.</i>	<p>▶ We had no concerns to report as part of this work and concluded that your submission was consistent with the financial statements.</p>
<i>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</i>	<p>▶ We issued an unqualified value for money conclusion on your arrangements for securing adequate Use of Resources.</p> <p>Key points from our work in this area can be found in the section ‘Audit Findings’.</p>
<i>Consider the completeness of disclosures in the Authority’s Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</i>	<p>▶ We identified no concerns with the content of your Annual Governance Statement, and found it to be compliant with relevant guidance.</p>

Audit Responsibility	Results
<p><i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i></p>	<p>We identified no matters that would require us to issue a public interest report.</p>
<p><i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i></p>	<p>We identified no matters that would require any other action to be taken in respect of our responsibilities here.</p>
<p><i>Issue a certificate that 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.</i></p>	<p>We have issued our completion certificate and have no relevant matters to report.</p>
<p><i>Issue an opinion on the pension fund annual report.</i></p>	<p>We have issued an unqualified opinion in respect of the pension fund annual report.</p>

*We issued an unqualified opinion on your financial statements, and on your use of resources.*

## *Audit Findings*

### *Accounts*

We audited your financial statements in line with approved Auditing Standards and issued an unqualified audit opinion on 30 September 2013.

Key points to bring to your attention are as follows:

- Your draft accounts (including pension fund) were submitted to us before the 30 June deadline and were of a high quality. Most working papers were provided on time and were of a good quality.
  - Key contacts in the finance team and elsewhere were available during the audit and responded readily to our questions and requests for information.
  - Significant areas of audit focus this year included:
    - Ensuring that revised valuations of Council land and buildings were based on accurate data;
    - Confirming the adequacy of the Provision for Equal Pay;
    - Determining that schools transferring to Academy status were correctly accounted for; and
    - Considering the financial standing of the Council over the medium term.
  - We identified errors in accounting for the in-year revaluation of land and buildings; adjustments were proposed by the audit team and the financial statements were updated as required.
- The West Midlands' Councils' shares in Birmingham Airport were revalued. You chose not to revalue your share upwards and we recorded this as an immaterial unadjusted difference. There was also an immaterial unadjusted misstatement relating to the valuation of specific investments within the Pension Fund accounts.
  - We reported two internal control weaknesses to the Audit Committee: processes ensuring the accuracy of asset data driving the Council's revaluation programme, and compliance with related accounting requirements. See the 'recommendations' section below for further details.
  - Though not impacting on our audit opinion, we stressed our concerns over your medium term financial standing, noting the extent of the financial challenge faced. We have provided further comment on this in the 'use of resources' section below.

### *Use of Resources*

We carried out sufficient, relevant work in line with the Audit Commission's guidance, to enable us to conclude on whether you had in place, for 2012/13, proper arrangements to secure economy, efficiency and effectiveness in your use of the Council's resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

- whether the organisation has proper arrangements in place for securing financial resilience; and



- whether the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment. Specific areas of focus were:

- Savings plans and the Medium Term Financial Strategy (MTFS);
- Single Status implementation;
- Shared Services Transformation Programme (*replaced by FutureWorks*);
- Restructuring costs; and
- Procurement follow up.

As part of this programme of work we have issued separate reports to management and the Audit Committee in respect of your transformation programme, and Medium Term Financial Strategy.

***We issued an unqualified conclusion in respect of the two criteria above.***

However we highlighted the increasing difficulty in reaching a positive conclusion on your financial standing.

We identified the need for further work by the Council in a number of areas to ensure financial sustainability:

- **Budgetary control;** the Council overspent against its General Fund budget by £3.6m in 2012/13. This variance was in part due to errors in the misclassification of expenditure items as ‘non-controllable’ rather than ‘controllable’. As a result of this the budget monitoring and reporting of certain elements of spend was lacking and significant variances against budgets were overlooked by both budget holders and service accountants.

- **Taking a radical approach to service provision:** to continue to be able to demonstrate that you have sufficient resources available to meet your medium term commitments we think it is of paramount importance that the Council continues to consider a broad range of alternative service delivery models where appropriate, and works together to ensure there is a strong consensus about the need for change.

Cuts in Government funding mean that it is no longer possible for the council to carry on with 'business as usual' so tough decisions will need to be made and previously unpalatable options properly considered, including scaling back those activities which don't make a clear contribution to Corporate Plan priorities.

- **Information for decision making:** to be able to make the most appropriate decisions for your local circumstances it is vital that the Council is able to make tough decisions on cost reductions and cuts based on robust information on costs and cost drivers. Officers must ensure that sufficient information is available to make informed and rounded decisions based on thorough cost-benefit analysis and options appraisals.

The Council also needs to continue to develop an understanding of its cost base and unit costs to enable informed decisions to be taken on which areas have the greatest opportunities for savings, or where further investment is warranted.

- **Managing the financial impact of the redundancy programme:** the Council is planning a significant programme of redundancies in 2013/14, accompanied by restructures and business reviews.

We recognise the need to consider reducing your pay bill considering non-schools General Fund services have an associated pay bill of £140m per annum of your £256m net budget requirement. We also recognise that the Council has a number of reserves which could be utilised to support the upfront costs of such a scheme.

However, we note that the use of general fund reserves during 2013/14 is highly likely. Member approval must be obtained for any reduction in the General Fund below the £15m currently required by your own reserves policy.

It is imperative that once all upfront costs and longer term savings are taken into consideration you are still able to demonstrate the ability to set a balanced budget with an appropriate level of reserves.

Further work is needed in each of these areas over the coming year for us to continue to assess the Council as complying with Audit Commission guidance regarding our value for money code responsibilities.

### *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 your 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.

We found no areas of concern to report in this context.

### *Whole of Government Accounts*

We undertook our work on your Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted on 4 October 2013. We found no areas of concern to report in this context.

### *Certification of Claims and Returns*

We presented our most recent Annual Certification Report for 2011/12 to those charged with governance in February 2013.

We certified eight claims and returns worth an aggregate net total of £234,816,279. Of these, four were amended following our certification work and four required qualification letters to set out matters arising from the certification of the claim or return.

We will issue the Annual Certification Report for 2012/13 in early 2014, following completion of our work programme.

# Recommendations

## Summary of significant internal control deficiencies

Deficiency	Recommendation
<p><b>Valuations</b></p> <p>Land values are determined in accordance with site acreage and building values are calculated based on gross internal floor areas. Accordingly, it is important that this data is complete and accurate at each balance sheet date.</p> <p>At present this is not achieved which may result in over- or under-statement of the balance sheet. This is particularly relevant to schools, for which works are regularly being carried out, but applies to all asset types.</p>	<p>There is a need for the property and asset management teams to carry out a data validation exercise before every valuation and again at the end of the financial year to ensure that any increases or reductions in and or building size are recorded on a timely basis.</p> <p>This ought to include liaison with the Building School's for the Future team but may require consultation with other relevant departments within the Council who hold up to date information on the Council's assets.</p>
<p><b>Academies</b></p> <p>We identified a small number of assets relating to academy schools that:</p> <ul style="list-style-type: none"><li>remained in the balance sheet after they should have been written out; or</li><li>were overvalued as a result of not being revalued to reflect the change in the future use of existing assets.</li></ul> <p>There seems to be a lack of clarity regarding which assets need to be revalued, when and on what accounting basis.</p>	<p>There is a need to strengthen procedures to ensure that the finance, property and valuation teams share a common understanding of what the accounting requirements are for assets associated with academy schools.</p> <p>A policy should be drafted and clear accountability defined to ensure that the valuation team is:</p> <ul style="list-style-type: none"><li>aware of any changes in use of school assets;</li><li>aware of any milestones being reached on any academy conversion or new build progress; and</li><li>clear what the accounting rules require.</li></ul>

*Our final fees are expected to be lower than our original fee proposal.*

## Final Fees

### Final Fees for 2012/13

We reported our fee proposals in our audit plan. Our actual fees are as shown below.

	2012/13 outturn	2012/13 fee proposal	2011/12 final outturn
<b>Audit work performed under the Code of Audit Practice:</b>	251,100	251,100	418,500
Comprising:			
- Statement of Accounts			
- Value for Money conclusion			
- Whole of Government Accounts			
<b>Audit work performed under the Code of Audit Practice – Variation from scale fee for work on additional risks*</b>	61,400	65,800	72,000
<b>TOTAL potential fee</b>	<b>312,500</b>	<b>316,900</b>	<b>490,500</b>

\* - We have sought approval from the Audit Commission for a variation from scale fee. We are awaiting confirmation from the Audit Commission whether this fee variation has been approved. The final fee will be in the range of £251,100 and £312,500. We will confirm the final fee as soon as it is confirmed.

### Non audit services

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:

- Accelerated Asset Review – Phase 4, Stage 1 office workstream pre-tender planning. The fee for this work during 2012/13 was £36,000.
- Exploring New Financial Models to Invest in Housing. The fee for this work was £9,000.

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

### Certification work

Our fee for certification of claims and returns is yet to be finalised for 2012/13 and will be reported to those charged with governance in early 2014 (following completion of our work programme) within the 2012/13 Annual Certification Report.



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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