

Wolverhampton City Council

External Audit Plan 2013/14

Government and
Public Sector

February 2014

Contents

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.

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Executive summary

Background

This audit plan informs the Audit Committee of Wolverhampton City Council (the 'Authority') about our responsibilities as external auditors and how we plan to discharge them for the financial year ended 31 March 2014.

We will prepare a separate audit plan for our work on the West Midlands Pension Fund Annual Report and Accounts. 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.

Framework for our audit

We are appointed as your auditors by the Audit Commission as part of a national framework contract and consequently we are required to incorporate the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for local government bodies (the 'Audit Code') as well as the requirements of International Standards on Auditing (UK & Ireland) ('ISAs').

The remainder of this document sets out how we will discharge these responsibilities and we welcome any feedback or comments that you may have on our approach.

We look forward to discussing our report with you on 10 March 2014. Attending the meeting from PwC will be Richard Bacon and Richard Vialard.

Our Responsibilities

Our responsibilities are as follows:

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&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.

Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.

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.

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.

Determine whether any other action should be taken in relation to our other responsibilities under the Audit Commission Act.

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.

Audit approach

Our audit is risk based which means that we focus on the areas that matter.

We determine if risks are significant, elevated or normal and whether we are concerned with fraud, error or judgement as this helps to drive the design of our testing procedures:

● Significant	Those risks with the highest potential for material misstatement due to a combination of their size, nature and likelihood and which, in our judgement, require specific audit consideration.
● 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 consider 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 (there is a rebuttable presumption that this is a significant risk):

“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 given rise to such risks.” ISA 240 paragraph 26.

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

A summary of the significant and elevated audit risks identified for 2013/14 is set out below, split by the element of our audit opinion (Accounts or Value for Money opinion) to which each risk relates.

Our risk assessment is informed by our accumulated understanding of your business, from our discussions with management, and from our wider sector knowledge.

Further information along with our planned audit response is provided on the following pages.

Risk arising	Potential impact upon PwC work		Categorisation for accounts risks
	Accounts true and fair opinion	Value for money conclusion	
Management override of controls	◆		● Significant
Risk of fraud in revenue and expenditure recognition	◆		● Significant
Valuation of Property, Plant and Equipment	◆		● Significant
Provision for Equal Pay	◆		● Elevated
Implementation of Agresso	◆		● Normal
The Medium Term Financial Strategy and savings requirements		◆	N/A

Financial Statements Risks

Risk	Categorisation	Audit approach
<p data-bbox="607 256 1240 296">Management override of controls</p> <p data-bbox="607 336 1240 616">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. In every organisation, management may be in a position to override the routine day to day financial controls in order to manipulate the financial statements. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	<p data-bbox="1240 256 1503 296">Significant ●</p>	<p data-bbox="1503 256 2125 504">As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. We will consider the level of assurance provided by Internal Audit regarding management’s ability to override controls.</p> <p data-bbox="1503 536 2125 568">We will perform procedures to:</p> <ul data-bbox="1503 576 2125 1238" style="list-style-type: none"> • Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; • Test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus; • Review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension assumptions, valuation and impairment assumptions); • Evaluate the business rationale underlying significant transactions outside the normal course of business; • Test exceptional and unusual items arising from bank and other reconciliations; and • Perform ‘unpredictable’ procedures targeted on fraud risks. <p data-bbox="1503 1270 2125 1334">We may perform other audit procedures if necessary.</p>

Risk	Categorisation	Audit approach
<p data-bbox="604 316 1008 379">Risk of fraud in revenue and expenditure recognition</p> <p data-bbox="604 427 1164 515">Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition.</p> <p data-bbox="604 547 1164 611">We extend this presumption to the recognition of expenditure in local government.</p> <p data-bbox="604 643 1164 794">There is a risk that the Authority could adopt accounting policies or treat income and expenditure transactions in such as way as to lead to material misstatement in the reported revenue position.</p>	<p data-bbox="1243 316 1411 347">Significant ●</p>	<p data-bbox="1500 316 2083 435">We will obtain an understanding of revenue and expenditure controls and will seek to place reliance on internal audit work, where most efficient to do so.</p> <p data-bbox="1500 467 2083 619">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 data-bbox="1500 651 2083 770">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 data-bbox="1500 786 2083 986" style="list-style-type: none"> <li data-bbox="1500 786 2083 850">• The appropriateness of journal entries and other adjustments; <li data-bbox="1500 858 2083 890">• Income and expenditure ‘cut off’; and <li data-bbox="1500 898 2083 986">• Accounting estimates and judgements made for income and expenditure (e.g.: accruals, deferred income and provisions).

Risk	Categorisation	Audit approach
<p>Property, Plant and Equipment Valuation</p> <p>Property, Plant and Equipment is the largest figure on your Balance Sheet.</p> <p>You value your properties at fair value using a range of assumptions and the advice of internal and external experts.</p> <p>During the 2012/13 audit process we identified that out-of-date base data had been used in the valuation of some assets. We also identified Academy schools on your balance sheet that should have been derecognised in prior periods.</p> <p>These findings resulted in a material net adjustment to the valuation of property, plant and equipment.</p> <p>Specific areas of risk for 2013/14 therefore include:</p> <ul style="list-style-type: none"> • asset valuation base data may be inaccurate or incomplete; • the Authority's valuation assumptions may not be appropriate; • assets' actual market values may fluctuate materially but may not have been re-valued in the accounts; • capital expenditure may not be accurately allocated between enhancing and non-enhancing; and • newly established Academy schools may not have been correctly treated in the accounts. 	<p>Significant ●</p>	<p>We will review the basis of any asset revaluations undertaken and in doing so consider:</p> <ul style="list-style-type: none"> • the judgements, assumptions and data used; • the reasonableness of any estimation techniques applied; and • the expertise of your valuation experts. <p>We will consider the Authority's response to control recommendations made in the previous year and will validate base data to underlying records.</p> <p>We will review the accounting treatment and corresponding valuation of schools that have achieved Academy status during 2013/14, and confirm that these have been dealt with in accordance with agreed accounting practice.</p> <p>Where assets are not re-valued in year we will understand the steps taken to ensure that your balance sheet is materially accurate at the year end. In particular, it is noted that the Code of Practice has been expanded and now explicitly states that <i>'where assets are re-valued (i.e. the carrying amount is based on fair value), revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.'</i></p>

Risk	Categorisation	Audit approach
<p data-bbox="604 311 952 343">Provision for Equal Pay</p> <p data-bbox="604 375 1176 470">As in previous years, the Authority is expected to include a provision in the accounts to reflect its liability for Equal Pay and back pay claims.</p> <p data-bbox="604 502 1176 710">Over the last five years the Authority has received notification of employment tribunal claims against the Authority alleging breach of Equal Pay legislation. The Authority has engaged Solicitors to provide legal advice and conduct proceedings on behalf of the Authority in relation to these claims.</p> <p data-bbox="604 742 1176 933">On the basis of the advice provided and the information available the Authority concluded on what it felt was the most probable liability as at 31 March 2013. That provision figure reflected known claims as well as other potential claims.</p>	<p data-bbox="1232 311 1388 343">Elevated ●</p>	<p data-bbox="1500 311 2038 406">We will evaluate the accounting policies for recognising associated expenditure and liabilities.</p> <p data-bbox="1500 438 2083 590">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 data-bbox="1500 622 2105 686">We will seek confirmation on these matters from the Authority's legal advisors.</p> <p data-bbox="1500 718 2105 837">We will review and challenge assumptions made by the Authority regarding relevant case law and the associated implications for the Authority's provision.</p>

Risk

Implementation of Agresso

Your new ledger system is due to go live on the 1 April 2014.

Although the 2013/14 accounts will be prepared using the financial information contained within the old ledger system, we are required to consider post balance sheet date transactions in carrying out our audit work.

As a result, in order for us to utilise the information contained within the new system we will need to perform additional procedures during the 2013/14 audit to satisfy ourselves that sufficient IT general controls are in place and are operating effectively within both the new and old ledger system.

Categorisation

Normal ●

Audit approach

We will understand, evaluate and validate that controls within the new ledger system are operating effectively in the following domains:

- Data transfer from the old to new ledger system;
- Access control;
- Computer operations; and
- Change management.

Other Audit Code Responsibilities Risks

Risk

The Medium Term Financial Strategy and savings requirements

The Authority's February 2014 updated MTFS includes £66.7 million of savings proposals over the next five years, of which £32.1 million will need to be delivered by 2014/15 to prevent a budget deficit.

After taking into account these savings plans, a projected £59.2 million deficit by 2018/19 still remains.

The draft 2014/15 budget is balanced only after the use of £11.8m of General Fund reserves, leaving that reserve balance below the £10m required in the Council's Reserves Policy. £26.7m of additional savings need to be made by 2015/16 to meet that £10m requirement.

This represents a significant financial challenge and it is acknowledged that this must be addressed as a matter of urgency.

There are a number of significant risks associated with the MTFS including:

- The uncertainty about how much funding will be received from Government;
- 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;
- The impact of the current economic climate, including increased inflationary pressures and interest rate changes;
- Demand for services may exceed estimates; and

Audit approach

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.

We will meet regularly with the Section 151 Officer and the Chief Executive to discuss the Authority's financial position and plans. We are aware that the Section 151 Officer has highlighted to Members the significance of the requirements of Section 114 of the Local Government Finance Act 1988 and we will consider how he is satisfied that issuing a report under that Act is not required.

We will review in-year finance reports and cashflow forecasts to identify key issues and consider their impact on budgets and plans.

We will consider the amendments to the calculation of your Minimum Revenue Provision.

We will consider the findings of our detailed testing on the Authority's estimates, provisions and journals undertaken as part of our final accounts audit work. If any of these findings have a significant impact upon the Authority's financial plans we will feedback our findings to you.

The robustness of savings plans and response to the projected funding gap will significantly factor into our assessment of whether the Authority is able to demonstrate financial resilience.

Risk

- Future finance settlements may vary from current assumptions.

Effectively managing these risks is critical to the Authority's future financial resilience. Consideration of this area will therefore form a key part of our assessment on your arrangements for securing economy, efficiency and effectiveness in the use of Authority resources.

We need to be satisfied that the Council can demonstrate financial resilience over the medium term as well as ensuring that planned expenditure of the Authority in a financial year is not likely to exceed the resources (including sums borrowed) available to it. This looks particularly challenging for 2015/16.

Audit approach

If our assessment results in the view that the Authority is unable to demonstrate financial resilience this will directly impact on our value for money opinion.

Additional reporting may be required under the Local Government Finance Act 1988 which requires an auditor to issue 'an advisory notice' if he has reason to believe that the body or an officer of the body 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.

Overall group Materiality:
£17.986 million

Group triviality threshold:
£0.899 million

Intelligent scoping

Group materiality

	£m
Overall group materiality	17.986
Clearly trivial reporting de minimis	0.899

We set overall materiality to assist our planning of the overall audit strategy and to assess the impact of any adjustments identified.

Overall materiality has been set at 2% of total gross service expenditure for the year ended 31 March 2013. We will update this assessment as necessary in light of the Authority's 31 March 2014 actual results.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated.

For the Authority we calculate this reporting threshold as £899,000, based on 5% of overall materiality.

We would like to seek the Audit Committee's views on this de minimis threshold which is a change from the agreed de minimis threshold in the previous year of £100,000.

Note that the thresholds seen above relate to the Authority's group accounts. We perform our work on the Authority's single-entity accounts to different thresholds, calculated using an allocation of overall group materiality.

For the 2013/14 financial year, we expect these benchmarks to be as follows:

Authority materiality

	£m
Overall group materiality	17.087
Clearly trivial reporting de minimis	0.854

Robust Testing

Where we do our work

Our audit is risk based which means we focus our work on those areas which, in our judgement, are most likely to lead to a material misstatement. In summary, we will:

- Consider the key risks arising from internal developments and external factors such as policy, regulatory or accounting changes;
- Consider the robustness of the control environment, including the governance structure, the operating environment, the information systems and processes and the financial reporting procedures in operation;
- Understand the control activities operating over key financial cycles which affect the production of the financial statements;
- Validate key controls relevant to the audit approach; and
- Perform substantive testing on transactions and balances as required.

When we do our work

Our audit is designed to quickly consider and evaluate the impact of issues arising to ensure that we deliver a no surprises audit. This involves early testing at an interim stage and open and timely communication with management to ensure that we meet all statutory reporting deadlines. We engage early, enabling us to debate issues with you. We have summarised our formal communications plan in Appendix B.

Value for Money Work

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements

Wolverhampton City Council

to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes 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 determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

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 is required to be presented by the Authority with the Statement of Accounts.

We will review the AGS to consider whether it complies 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.

Whole of Government Accounts

We are required to examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and issue an opinion stating in our view if they are consistent or inconsistent with the Statement of Accounts.

Meaningful conclusions

We believe fundamentally in the value of the audit and that audits need to be designed to be valuable to our clients to properly fulfil our role as auditors.

In designing the Authority audit, our primary objective is to form an independent audit opinion on the financial statements; however, we also aim to provide insight.

Audit value comes from the same source as audit quality so the work that we do in support of our audit opinion also

means that we should be giving you value through our observations, recommendations and insights. We have set out some recent developments in Appendix C and we will provide other insights and observations to you in our audit reports throughout the year.

We have also developed a Local Government Centre of Excellence which supports your audit team in all aspects of the audit, including sharing insight and observations gained from audit teams across the country.

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	Management's responsibility	Responsibility of the Audit and Standards Committee
<p>Our objectives are:</p> <ul style="list-style-type: none"> • 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. 	<p>Management's responsibilities in relation to fraud are:</p> <ul style="list-style-type: none"> • 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. 	<p>Your responsibility as part of your governance role is:</p> <ul style="list-style-type: none"> • To evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate 'tone at the top'; and • To ensure any alleged or suspected instances of fraud brought to your attention are investigated appropriately.

Conditions under which fraud may occur



Your views on fraud

We enquire of the Audit Committee:

- **Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?**
- **What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?**
- **What role you have in relation to fraud?**
- **What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?**

Fraud Briefing

The 2013 version of the annual Audit Commission report *Protecting the Public Purse (PPP)* was published on 14 November 2013. That report highlighted current and emerging fraud risks in local government. The report also provided summary information on fraud detection activities, based on the Audit Commission's annual detected fraud and corruption survey.

Submission of the survey is a mandatory requirement under Section 48 of the Audit Commission Act 1998. All local government bodies submitted the required information. Their respective external auditors provided confirmation that the submissions made fairly reflected the auditors' knowledge of fraud detection activities at those authorities.

Following the release of the report the Audit Commission prepared fraud briefing packs for auditors to use as part of optional fraud briefings with their respective clients.

Purpose of a fraud briefing:

- Provide an information source to support councillors' consideration of fraud detection performance at their council, compared to similar local authorities;
- Opportunity to review counter fraud approach and priorities at the council;
- Support fraud risk management, to ensure local priorities are reflected as part of a proportionate response to fraud;
- Discuss national and local fraud risks; and
- Support auditor's communication with those responsible for governance.

A fraud briefing was provided to the Audit Sub-Committee on 20 January 2014 summarising the findings of the PPP survey.

Your PwC team

The individuals in your PwC team have been selected to bring you extensive audit experience from working with Local Authorities, the wider public sector and the commercial sector. We also recognise that continuity in the audit team is important to you and the senior members of our team are committed to developing longer term relationships with you.

The core members of your audit team are:

Audit Team	Responsibilities	Engagement Manager	Manager on the assignment responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the Value for Money work.
<p><i>Engagement Leader</i> Richard Bacon 5th 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 Audit Code (including agreeing the Audit Plan, ISA 260 Report to Those Charged with Governance and the Annual Audit Letter), quality of outputs and signing of opinions and conclusions.</p>	<p><i>Team Leader</i> Sophia Mouyis 5th year on the audit 0751 554 1313 sophia.mouyis@uk.pwc.com</p>	<p>Senior Associate responsible for leading the audit team on site and liaising with finance staff on the scope and timing of our work.</p>
<p><i>Engagement Senior Manager</i> Richard Vialard 8th year on the audit 0780 975 5784 richard.vialard@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. Completion of the Audit Plan, ISA 260 report and Annual Audit Letter.</p>		

Your audit fees

A breakdown of our proposed audit fee for 2013/14, in comparison to the prior year, is shown below:

Audit fee	Actual fee 2012/13 £	Indicative fee 2013/14 £
Audit work performed under the Code of Audit Practice	251,100	251,100
- Statement of Accounts		
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources		
- Whole of Government Accounts		
Pension Fund	48,618	48,618
Certification of Claims and Returns	85,974	44,200
Sub - Total Audit Code work	385,692	343,918
Additional local risk based audit work (Note 1)	52,525	34,000
Sub – Total Audit Fees	438,217	377,918
Planned non-audit work (Note 2)	45,000	80,000
Total fees (audit and non-audit work): Note 3	483,217	457,918

Note 1 - As we have reported to you previously, we are required to obtain approval from the Audit Commission for any variation from its published scale fee.

The initially proposed fee for the work on these additional risks was £65,800 for 2012/13, as discussed and agreed with you. The final approved fee for this work was £52,525.

As part of our 2013/14 audit planning process we have tailored a programme of audit work in response to the additional local audit risks relevant to this Authority for the period in question.

In most areas the risks have reduced significantly since last year and the fee has been removed completely or reduced. In a small number of areas, the risk remains and an associated programme of audit work (and hence fee) is required for 2013/14. Our current analysis of these local considerations, which have been discussed with Senior Officers, is set out in the table below. We will seek approval from the Audit Commission for these fees.

Analysis of local additional audit work

Additional risk based audit work:	2012/13 Actual	2013/14 Plan
Property, Plant and Equipment Valuation	16,000	12,000
Equal Pay and Single Status	9,000	8,000
Savings Plans	4,100	6,000*
Procurement	5,000	0
System changes and redesign	12,800	8,000
Restructuring costs	5,625	0
Total additional local risk based audit work	52,525	34,000

* - Given our comments in the 'Audit Approach' section above the extent of our work and reporting in this area is still uncertain. This fee covers only the work we can currently forecast.

Note 2 – The planned non-audit work relates to the FutureSpace business case and critical friend support PwC are providing to the Authority outside of the work performed for the external audit. An assessment of the potential threats to our independence as external auditors and corresponding safeguards is included within Appendix A.

Note 3 - We have based the fee level 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;
- We are able to take sufficient assurance from the additional work performed by internal audit on the budgetary control issue identified in the year and as a result will not have to perform additional audit procedures;
- 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 significant changes to core financial systems in year (that we have not already been made aware of); and
- You have satisfactorily addressed the issues we have raised in the prior year.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed and agreed in advance with you and the Audit Commission.

Appendices

Appendix A: Independence threats and safeguards

At the beginning of our audit process we are required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters. We have set out below the relationships that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit team, together with the related safeguards.

Other services

Support provided by PwC	Value	Threats to independence and safeguards in place
FutureSpace: Final Business Case & Critical Friend Approval from the Audit Commission to undertake this work has been received.	Capped at £80,000	Self Review Threat: The work will be conducted by a separate engagement team who have no involvement in the audit of the financial statements. There is no self review threat as the results of the reviews will not be used by the audit team as they do not impact on the financial statements. Self Interest Threat: As a firm, we have no financial or other interest in the results of the Authority. We have concluded that this work does not pose a self interest threat. Management Threat: PwC is not required to take any decisions on behalf of management as part of this work, the work is to undertake a 'critical friend' review and then oversee preparation of a final business case report. Advocacy Threat: The nature of this assignment will not give rise to any advocacy threat. Familiarity Threat: The work will not be used by the audit team and does not present a familiarity threat. Intimidation Threat: We have concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with utmost integrity and professionalism.

Certification of claims and returns

£44,200

Self Review Threat: The audit team will conduct grant certification work, as required under the terms of our engagement. We use the results of our certification work to support our audit work in specific areas; because this work forms part of the same overall engagement self-review is not relevant.

Self Interest Threat: As a firm, we have no financial or other interest in the results of the Authority. We have concluded that this work does not pose a self interest threat.

Management Threat: PwC is not required to take any decisions on behalf of management as part of this work.

Advocacy Threat: We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat.

Familiarity Threat: Work complements our external audit appointment and does not present a familiarity threat.

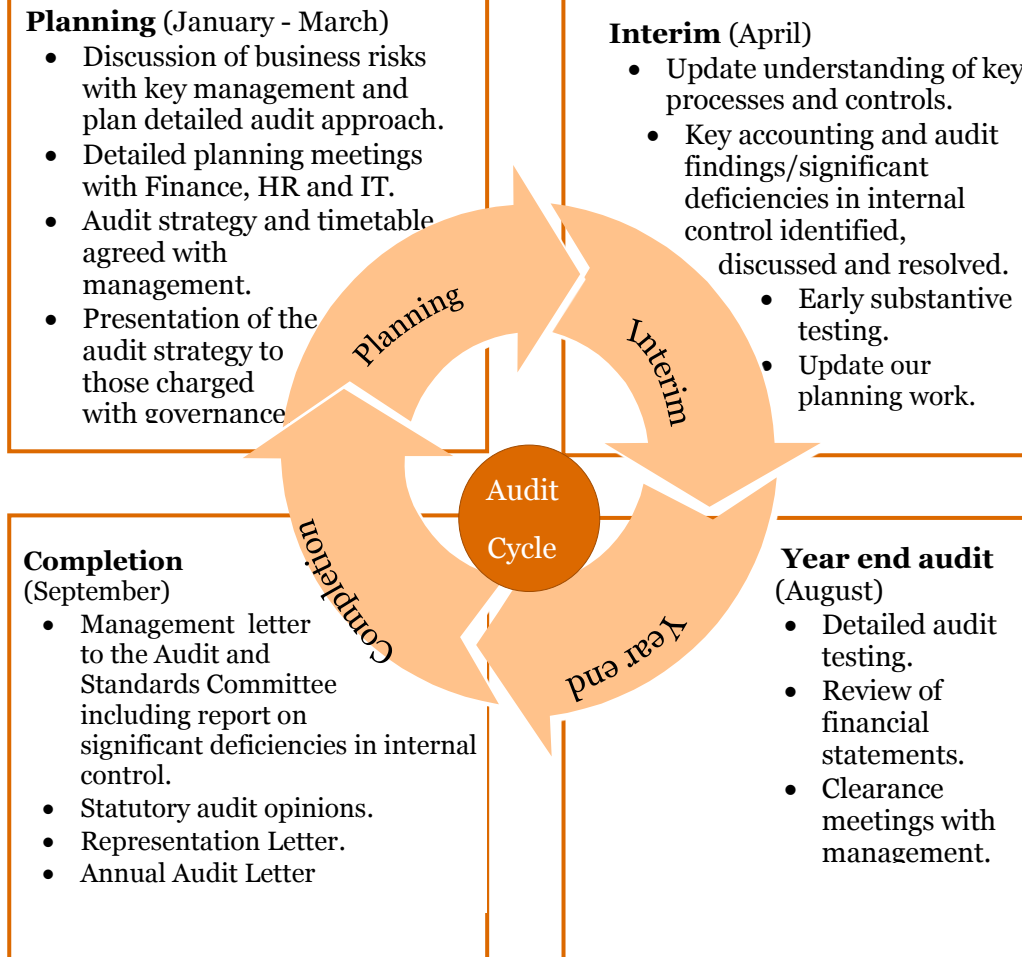
Intimidation Threat: We have concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with utmost integrity and professionalism.

Relationships and Investments

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.

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

Appendix B: Communications Plan



Continuous Communication

- Continuous proactive discussion of issues as and when they arise; 'no surprises'.
- Continuous evaluation and improvement of the audit.
- Bringing you experience of sector and best practice.

Appendix C: Recent developments

The Future of Government



Delivering on the Citizen Promise

In the face of recurrent budget cuts to reduce fiscal deficits in many countries, affordable government has become the watchword. This means doing more for less – meeting rising citizens' expectations by doing things differently to deliver services more effectively and efficiently.

Where Next for public services?

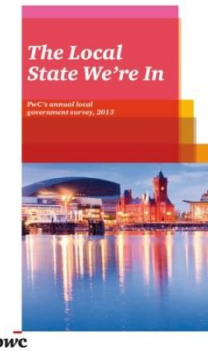
Public sector organisations need to re-evaluate their purpose and role and decide if current visions and missions, and ways of operating to achieve them, are relevant enough to ride the waves of these shifts, or be overwhelmed by them. Government and public sector organisations will also need to respond to these shifts proactively and pre-emptively, to avoid falling one or more steps behind.

What guides and shapes the future public body?

As such, tomorrow's public bodies need to navigate themselves by first formulating a strong and clear vision and mission. Together, these will capture the organisation's

strategic ambition and purpose and serve to influence decisions and behaviour within the organisation.

The Local State We're In



Over the past few years, local government has demonstrated its ability to deliver ambitious and far reaching savings programmes. While Authority Chief Executives are still holding on to their confidence in meeting savings targets for 2013/14, our third annual local government survey shows that confidence in being able to protect services as well has fallen by 40% over the past year. Beyond 2013/14, confidence in meeting savings targets falls further.

Tough choices are ahead as the cracks begin to show and decisions get closer to the frontline. Authorities need to act urgently to transform themselves into agile organisations and shape a role for themselves through a future of continued austerity.

Appendix D: Audit quality

Quality is built into every aspect of the way that we deliver the Authority audit. We take great pride in being your auditors and in the value of assurance that the audit opinion provides. A timely, independent and rigorous audit is fundamental. This in turn necessitates getting the basics right – clarity on audit risks, scope, resource, timetables, deliverables and areas of judgement – which is supported by our team that has extensive experience and relevant training.

The table below sets out some of the key ways in which we ensure we deliver a high quality audit.

Procedure	Description
People	Quality begins with our people. To ensure that every engagement team provides quality, we use carefully designed protocols for recruiting, training, promoting, assigning responsibility and managing and overseeing the work of our people. We invest significant amounts of time and money for the training and development of our audit professionals. Every new team member is carefully selected to ensure they have the right blend of technical expertise and industry experience to support the Authority audit.
Client acceptance and retention	Our client acceptance and retention standards and procedures are designed to identify risks of a client or prospective client to determine whether the risks are manageable.
Audit methodology	The same audit methodology is used for all Local Authority audit engagements, thereby ensuring uniformity and consistency in approach. Compliance with this methodology is regularly reviewed and evaluated. Comprehensive policies and procedures governing our accounting and auditing practice – covering professional and regulatory standards as well as implementation issues – are constantly updated for new professional developments and emerging issues, needs and concerns of the practice.
Technical consultation	Consultations by engagement teams, typically with senior technical partners unaffiliated with the audit engagement, are required in particular circumstances involving auditing, accounting or reporting matters including matters such as going concern and clinical quality issues. In addition, we regularly consult with our industry specialists in the Local Government Centre of Excellence and our accounting technical experts that sit on the Audit Commission Auditors' Group.

Procedure	Description
Technical updates	<p>PwC prepares numerous publications to keep both PwC staff and our clients abreast of the latest technical guidance.</p> <p>These include:</p> <ul style="list-style-type: none"> • A weekly publication covering the week's accounting and business developments; • A periodic publication providing in-depth analysis of significant accounting developments; and • A publication issued shortly after meetings of standard setters, including IFRIC and the EITF, to provide timely feedback on issues discussed at the meeting. <p>We also provide Local Government specific technical updates through regular publications issued by our Local Government Centre of Excellence and weekly conference calls for all Local Authority engagement teams during the final audit period. We will share our technical updates with you throughout the year.</p>
Independence standards	<p>PwC has policies and systems designed to comply with relevant independence and client retention standards. Before a piece of non-audit work can begin for the Authority, it must first be authorised by the engagement leader who evaluates the project against our own internal policies and safeguards and against your policy on non-audit services. Above a certain fee threshold, we then seek approval from the Audit Commission before proceeding with any work.</p>
Ethics	<p>Our Ethics and Business Conduct Programme includes confidential communication channels to voice questions and concerns 24 hours a day, seven days a week. Confidentiality helps us to ensure that we receive the candid information and that we respond with the appropriate technical and risk management resources.</p>
Independent review	<p>Our audits are subject to ongoing review and evaluation by review teams within PwC and also by the Audit Quality Review Team (AQRT, formerly the Audit Inspection Unit). The most recent report on PwC was issued in May 2013 and although there are some areas for development identified the general theme was that audit quality has continued to improve. The firm has developed action plans for all areas for development identified by the AQRT.</p> <p>As auditors appointed by the Audit Commission we are also required to comply with their annual Regulatory Compliance and Quality Review programme. The results for our 2012/13 audits are expected in early 2014 and will be publicly available on the Audit Commission's website should you wish to take a look.</p>

Smart People

We deploy quality people on your audit, supported by a substantial investment in training and in our industry programme. The members of staff deployed on your audit have been primarily taken from our dedicated Government and Public Sector team. These staff members have a wide and deep knowledge both of the Authority and the local government sector.

Key members of the audit team including the engagement manager have been involved in the audit of the Authority for a number of years. This ensures continuity which is beneficial both for our people and your audit through ensuring that accumulated knowledge remains within the audit team, improving the quality of the audit we deliver.

We use dedicated IT specialists on the audit and share their insight and experience of best practices with you.

Smart Approach

Data auditing

We use technology-enabled audit techniques to drive quality, efficiency and insight.

In 2013/14 we anticipate the work will include:

- Testing housing rental income using computer assisted audit techniques, allowing us to consider the complete population of transactions and target our detailed testing on exceptional items.
- Consideration and testing where possible new areas (e.g. council tax income) where computer assisted audit techniques could be utilised.

Centre of Excellence

We have a Centre of Excellence in the UK for Local Government which is a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit.

Our team has been working side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

Delivery centres

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and consistency and casting checks of the financial statements.

The use of our delivery centres frees up your audit team to focus on other areas of the audit.

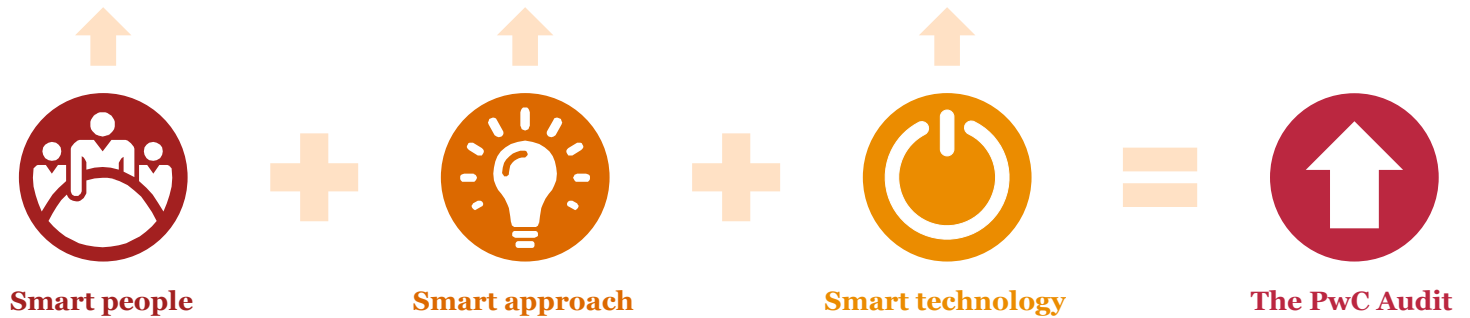
We have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres in India and Poland for the facilitation of basic audit tasks, as highlighted earlier. We have also agreed with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring. Further information is included in Appendix E.

Smart Technology

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC's Aura software, which has set the standard for audit technology. It is a powerful tool, enabling us to direct and oversee audit activities.

Aura's risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key Authority audit cycles.

We are committed to using technology smartly to make our audit experience better for our clients. We have a new tool, Client Connect, which will make your audit run more smoothly and securely. Client Connect is a web-based online workroom that facilitates the secure exchange of requested audit documents between you and us. Further information is included in Appendix E.



Our 'smart' approach underpins your audit

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

Electronic communication

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

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

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

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

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

Access to audit working papers

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

Overseas processing of information

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in India and Poland for the facilitation of basic audit tasks. Please refer to the letter at the end of this Appendix for further information on the types of tasks we may off-shore. We confirm that:

- When work is off-shored the firm delivering the audit remains entirely responsible for the conduct of the audit. As such the data will be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.
- All firms within the PricewaterhouseCoopers network, including the PwC Service Delivery Centres, have signed an intra-group data protection agreement which includes data protection obligations equivalent to those set out in the EU model contract for the transfer of personal data to data processors outside of the European Economic Area.
- We shall comply at all times with the seventh principle in Part 1 of Schedule 1 to the Data Protection Act 1998.
- Your audit team members will remain your key audit contacts, you will not need to communicate with our overseas delivery teams.
- The audit team members are responsible for reviewing all of the work performed by the overseas delivery teams.
- We already successfully use a UK based delivery centre for financial statements quality checks and that this service will remain in the UK.

If you have any questions regarding this process or if you require further information then please contact Richard Vialard or Jon Sawyer.

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 Richard Bacon, our Government & Public Sector Assurance Lead Partner at our office at Cornwall Court, Birmingham, B3 2DT, 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.

Client Connect: making the audit process easier

PwC is committed to using technology smartly to make our audit experience better for our clients. We have a new tool available, Client Connect, that we think will make your audit run more smoothly and securely. Over the last year, we've successfully piloted Client Connect in several major countries around the world, including the UK, US and Canada.

Benefits to you

Client Connect is a web-based online workroom that facilitates the secure exchange of requested audit documents between you and us. Based on the pilots, we believe that the benefits to you will be:

- Your team will be able to see exactly what information has been requested by PwC, when it's due and who's responsible for providing the information. Each user of Client Connect has a personalised page, showing the status of any tasks that they're responsible for. This makes it much **easier** for your team **to administer** the requests, reducing the time spent on managing the audit process at your end. It also **reduces the likelihood of** delays to the audit process and associated audit **overruns**;
- The use of templates within Client Connect requests make it clear what format the requested information needs to be in. This helps ensure requests are **right first time**, reducing the cost of re-work; and
- All information exchanged on Client Connect between your team and PwC is encrypted as it passes across the Internet, making this **more secure** than standard email traffic.

Security and user access administration

There'll be a dedicated Client Connect site for you, to which only your team and the PwC audit team will have access. The security and user access management works as follows:

- We'll grant access to your Client Connect site to those of your personnel whose names you provide to us, subject to their acceptance of specified on-line terms of usage;

- Users will then be able to access the Client Connect site via any web-enabled device (work or personal) – they have to authenticate themselves on entry to the Client Connect site;
- While Client Connect is very easy to use, we'll provide your users with access to suitable support and training to make sure they get the best out of the system;
- We'll remove access from any of your personnel on request – your team is responsible for notifying us when personnel leave or otherwise need their access terminated; and
- Within your Client Connect site, everyone who has been granted access to that site can normally view all documents on it.

Because requested data is normally visible to all users of your Client Connect site, we don't plan to use Client Connect to request any highly confidential information, such as price sensitive information, major restructuring plans/details, or sensitive personal data. You should ensure that any of your team that use Client Connect don't post highly confidential information onto the site without encrypting it.

Your Client Connect site will be hosted in the PwC European Regional Data Centre. This is located in Germany and so is subject to normal EU Data Protection laws.

We can share more information about the security over Client Connect (and how we've tested it) with your information security team if that would be helpful.

Your responsibilities

Client Connect is designed to be easy for both you and us to use in practice. To make the process run smoothly and keep your information confidential, there are certain responsibilities that we need you to carry out.

We recommend that you appoint a single point of contact who can work with our site administrator to carry out these responsibilities.

In the course of the services, we may provide access to your staff to some of our systems. You acknowledge that your people may be able to access our systems from any web-enabled device. You agree that you are solely responsible for:

- Providing details of those of your staff you believe should have access to our systems and ensuring those people are aware of and agree to be bound by the conditions for access;
- Notifying us by email to the designated PwC contact when such personnel leave or otherwise need their access terminated, and for periodically reviewing the access rights of your people to ensure that it remains appropriate; and
- Checking that your people don't post highly confidential information onto our systems without encrypting it.



Private & Confidential

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

24 February 2014

Dear Mark,

Working more efficiently

As you know the Audit Commission has tendered the audit work previously delivered by the District Audit service. This realised significant savings which have been passed on to your organisation in a reduction to your scale fee of around 40%.

As a result of this tender, suppliers have sought for opportunities to increase efficiency, whilst maintaining the level of quality. One principle which has recently been established is that certain basic parts of the audit can be off-shored. This is common practice in the private sector. When work is off-shored the firm delivering the audit and thus your audit team, remains entirely responsible for the conduct of the audit. As such the data would be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.

Examples of the work that can be off-shored are:

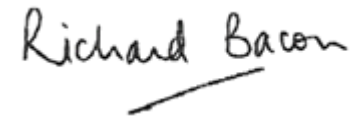
- Request for confirmations (Receivables, Bank or Payables);
- Verification/vouching of information to source documentation (e.g. agreeing a payable balance to invoice);
- Financial statements review;
- Mathematical accuracy checks of data;
- Research; and
- Preparation of lead schedules.

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres in India and Poland for the facilitation of basic audit tasks, as highlighted above. We have agreed

with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring.

If you have any questions regarding the above, please do not hesitate to get in touch.

Yours sincerely

A handwritten signature in black ink that reads "Richard Bacon". The signature is written in a cursive style with a horizontal line underneath the name.

Richard Bacon

Engagement Leader



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 document has been prepared only for Wolverhampton City Council and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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