

CITY OF
WOLVERHAMPTON
COUNCIL

Audit and Risk Committee Meeting

Monday, 6 December 2021

Dear Councillor

AUDIT AND RISK COMMITTEE - MONDAY, 6TH DECEMBER, 2021

I am now able to enclose, for consideration at next Monday, 6th December, 2021 meeting of the Audit and Risk Committee, the following reports that were unavailable when the agenda was printed.

Agenda No Item

- 5 **Annual Governance Statement - 6 months update** (Pages 3 - 14)

[To receive an Annual Governance Statement - 6 months update.] (To follow).

If you have any queries about this meeting, please contact the democratic support team:

Contact Fabrica Hastings

Tel 01902 552699

Email Fabrica.Hastings2@wolverhampton.gov.uk

Address Democratic Support, Civic Centre, 1st floor, St Peter's Square,
Wolverhampton WV1 1RL

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CITY OF WOLVERHAMPTON COUNCIL	Audit and Risk Committee 6 December 2021
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Report title	Annual Governance Statement 2021 – 2022- mid year report	
Accountable director	David Pattison, Governance	
Originating service	Audit	
Accountable employee	Peter Farrow Tel Email	Head of Audit 01902 554460 peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by		

Recommendation for decision:

The Audit and Risk Committee is recommended to:

1. Review and comment upon the contents of the mid-year update re the Council's Annual Governance Statement for 2021-2022.

1.1 Purpose

- 1.1 That Members review and comment upon the content of the mid-year Annual Governance Statement (AGS) for the year 2021 - 2022.
- 1.2 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2015, to produce an Annual Governance Statement to be included in the annual statement of accounts, which is signed by the Leader of the Council and the Chief Executive. In the AGS for 2020-2021 it was agreed that a mid-year report be provided to provide assurance on the direction of travel.
- 1.3 This report is intended to cover the main aspects identified in the 2020-21 AGS and report on progress and any other issues that may have arisen.

2.0 Background

- 2.1 The Annual Governance Statement draws upon the management and internal control framework of the Council, especially the work of internal and external audit and the Council's risk management arrangements. In compiling the Annual Governance Statement assurance is obtained from a range of sources in order that the signatories to the statement can assure themselves that it reflects the governance arrangements for which they are responsible.
- 2.2 The update below identifies a significant amount of work that has and continues to take place. The Monitoring Officer is confident that good governance is in place for the Council and assurance is given by the work below.
- 2.3 The 2020-21 AGS identified a number of areas of work in 2021-2022 these included:
 - **External Audit** – It is important to note that the Council's statement of accounts for 2021-2022 were audited without any qualification by external audit with the audited accounts being published on 11 October 2021. It should be noted that as at 24 November 2021 only 23% of audit opinions had been delivered. The Value for Money assessment is due to be published on or before 11 January 2022 and an update will be brought to Committee shortly.
 - **Internal Audit** – As set out in the update report from Internal Audit while there has been one limited assurance report to date (and it is likely that there may be another), at this stage of the year there has been nothing of such significance that it would impact on our end of year opinion, or in our ability to give reasonable assurance that the Council has an adequate and effective internal control, governance and risk framework
 - **Linked bodies** – significant work continues to take place on a regular basis, as set out in the AGS, to provide assurance on the work and performance of bodies the Council owns or has potential liability for and to ensure that there is good

governance in respect of these other bodies – the most relevant bodies are listed in the AGS including:

- **Wolverhampton Homes is the Council's Arm's Length (Housing) Management Organisation (ALMO)** and is a company wholly owned by the Council. The control of the ALMO is through the Board which has representatives drawn from 1/3 council, 1/3 tenants and 1/3 independent. There is a Management Agreement between the Council and Wolverhampton Homes which sets out the contractual and governance arrangements between the parties.
- **Wolverhampton Housing Company Limited** – this is a wholly owned trading company set up under the powers in the Local Government Act 2003 and is known as WV Living focused on developing properties within the City to meet the Council's aspirations in terms of available housing. There is a shareholder agreement in place between the Council and WV Living with WV Living's Business Plan having to be approved by the Council and compliance with that business plan being monitored by the Council.
- **Yoo Recruit Limited** – this is a wholly owned trading company set up under the powers in the Local Government Act 2003 and provides staffing to the Council and other bodies. There is a shareholder agreement in place between the Council and Yoo Recruit and the Business Plan has to be approved by the Council and compliance with that business plan being monitored by the Council.
- **Help 2 Own** – this is a limited liability partnership that was jointly established with the West Midlands Combined Authority in 2021 to pilot an affordable housing product that helps to address the issue that many potential buyers who are in work have in raising the deposit to secure a mortgage. This is the subject of a number of legal agreements which sets up the contractual and governance arrangements between the relevant parties.

The accounts for WV Living have recently been audited and the auditors' opinion for 2020-21 are attached, which is without any qualification.

The regular monitoring of these bodies gives no cause for concern, indeed it indicates that there is good governance in place for each of these bodies.

- **Corporate Code of Governance** - The Council is updating its Local Code of Corporate Governance, in 2021-2022 in line with the latest principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government, this is expected to go to the Council's Governance and Ethics Committee in January 2022 for approval.

2.5 Key areas of work identified in the 2020-2021 AGS –

“Savings Targets

In March 2021 the Council approved a balanced budget for 2021-2022 without the use of general reserves.

It is important to note that the financial implications of the pandemic have significantly distorted the budget and Medium Term Financial Strategy. Current projections indicate that having taken into account additional government grant, there is a net cost pressure of over £6 million in 2021-2022 as a result of Covid. In order to set a balanced budget, this cost pressure has been met from other efficiencies identified across the Council. During 2021-2022 work will continue to monitor the financial impact of Covid to both inform the in year budget position and to inform medium term forecasts.

Looking forward it is estimated that further savings of £25.4 million are required in 2022-2023 rising to £29.6 million in 2023-2024 in order to set balanced budgets. These forecasts take into account the potential ongoing impact of Covid in addition to the underlying budget pressures that face the Council.

In addition to the impact of Covid, there continues to be significant uncertainty about future funding streams for local authorities. At the time of writing it is unclear when the Government will undertake the Comprehensive Spending Review, Fair Funding Review, Business Rates Reset and Business Rates Retention Review.

Work has started to address the budget deficit over the medium term and updates will be brought to Cabinet throughout the year.”

Update - Cabinet in October 2021 received the proposed approach to the MTFs and budget for 2022-23, it is anticipated that the Council will be able to set a balanced budget for 2022-23. Work continues towards ensuring that the Council addresses the budget deficit over the medium term.

“Procurement

In December 2020 the Government published a Green Paper on ‘Transforming public procurement’ which proposes a number of changes which would impact on the Council. Work will be undertaken to monitor the progress of this paper and to respond appropriately to any resulting changes in legislation.”

Update – A significant amount of work is taking place to ensure that the Council is ready for changes to the procurement rules and the Council is also working to ensure that it takes the opportunities that are presented to ensure that as much of its spend, and that of other key partners, is spent within the city, as part of the

Council's key work on Wolverhampton Pound – which is currently being examined by the Council Select Committee.

“Contract Management

Contract management practises across the Council have been found to be inconsistent. The Council also utilises a contract management system which is a central repository database that has a record of those contracts that have been procured, but not those that have been commissioned locally. Consequently, the Council has decided to transform how contract management is delivered and contracting process are measured to generate economic and efficiency benefits aligned to the Council Plan and other relevant strategies, such as Wolverhampton Pound and Relighting Our City.”

The Council plans to have a one council approach to contract management. The intention is to develop a contract management framework, establish external contract management training for officers and procure a contract management software system. The system will provide greater visibility of contract performance and a strategic oversight of contracts. These identified areas will provide a consistent and efficient method where possible and contribute to continuous improvement whilst obtaining value for money. These improvements will also prepare the Council in good stead for the forthcoming new procurement regulations as the Government's green paper, 'Transforming Public Procurement', identified contract management and commercial life cycle as key areas which will form part of the new procurement regulations.

Update – contract management training is already underway as is the other work described above. A detailed paper was taken to the Our Council Scrutiny Panel in September 2021.

Strategic Asset Plan

We have made progress on reviewing and challenging the Council's asset portfolio as part of the Our Assets Programme (formally referred to as Our Space programme), particularly in light of how services will operate moving forward as part of Relighting our City. This has included developing six workstreams Asset Data, Asset Review, Retained Estate, Civic Centre, Surplus Assets and Asset Disposals. The Strategic Asset Plan and Action Plan will be updated following completion of this programme.

Update – work continues in relation to strategic asset plan. A detailed paper was taken to the Our Council Scrutiny Panel in September 2021 on Our Assets programme and an update on Relighting Our Council in November 2021.

Civic Halls

Delivery of the Civic Halls in accordance with any set budget and in line with the set timeline will continue to be closely monitored by the Council throughout, and the Council will ensure that the contracts in place are complied with.

Update

A detailed update on the Civic Halls project is already on the agenda for the Committee.

Constitution Review Conclusion

Completion of the review of the constitution including revision of financial procedure rules, employment procedure rules, officer delegation and adoption of a new Corporate Code of Governance.

Update

A number of revisions to the Constitution have been taken to the Governance and Ethics Committee and to Council. A further set of revisions will be taken to the Governance and Ethics Committee and to Council in January 2022.

3.0 Progress, options, discussion

3.1 Progress on the implementation of the actions required in the key areas will be monitored by Audit Services and reported to the Audit and Risk Committee during the year.

4.0 Financial implications

4.1 There are no financial implications arising from the recommendation in this report.
[CN/03122021/T]

5.0 Legal implications

5.1 There are no legal implications arising from the recommendation in this report.
[DP/02122021/A]

6.0 Equalities implications

6.1 Whilst there are no direct equalities implications arising from the recommendation in this report there are a number of equalities issues that are addressed in the relevant reports for each of the activities taking place.

7.0 Environmental implications

7.1 There are no environmental implications arising from the recommendation in this report.

8.0 Human resources implications

8.1 There are no human resources implications arising from the recommendation in this report.

9.0 Corporate landlord implications

9.1 There are no corporate landlord implications arising from the recommendations in this report

10.0 Schedule of background papers

10.1 Annual Governance Statement 2021-2022

11.0 Appendices

11.1 Appendix 1 – Audited Report for WV Living 2020 - 2021

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Independent auditor's report to the members of City of Wolverhampton Housing Company Limited

Opinion

We have audited the financial statements of City of Wolverhampton Housing Company Limited (the 'company') for the year ended 31 March 2021, which comprise the Statement of Comprehensive Income, Statement of Financial Position and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the directors' report, other than the financial statements and our directors' report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company through our sector experience, discussions with management and legal correspondence. We determined that the following laws and regulations were most significant: Financial Reporting Standard 102 (FRS 102) and the Companies Act 2006.
- We enquired of management concerning the company's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risk of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of management whether they were aware of any instances of non-compliance with laws and regulations and corroborated the results of our enquiries to relevant supporting documentation.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur and the risk of management override of controls. Audit procedures performed by the engagement team included:
 - challenging assumptions and judgements made by management in its significant accounting estimates; and
 - identifying and testing journal entries.
- The assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
 - knowledge of the industry in which the client operates; and
 - understanding of the legal and regulatory requirements specific to the entity including, the provisions of the applicable legislation.
- The team communications in respect of potential non-compliance with laws and regulations and fraud included the potential for fraud in revenue recognition and cut off of income; and
- In assessing the potential risks of material misstatement, we obtained an understanding of:

- the company's operations, including the nature of its revenue sources and services to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risk of material misstatement; and
- the company's control environment, including:
 - management's knowledge of relevant laws and regulations and how the company is complying with those laws and regulations; and
 - the adequacy of procedures for authorisation of transactions.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

William Devitt

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
20 Colmore Circus
Queensway
Birmingham
B4 6AT