CITY OF WOLVERHAMPTON COUNCIL	**Audit and Risk Committee Meeting** Monday, 28 November 2022

Audit and Risk Committee Meeting

Monday, 28 November 2022

Dear Councillor

AUDIT AND RISK COMMITTEE - MONDAY, 28TH NOVEMBER, 2022

I am now able to enclose, for consideration at next Monday, 28th November, 2022 meeting of the Audit and Risk Committee, the following reports that were unavailable when the agenda was printed.

Agenda No Item

[To receive the Audit Findings Report and Management Letter of Representation.]

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

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The Audit Findings for West Midlands Pension Fund

Year ended 31 March 2022

West Midlands Pension Fund

19 October 2022

Agenda Item No: 8

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Midlands Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was mainly completed remotely alongside agreed days on site during July – October. Our findings are summarised on pages 3 to 17. We have not identified an issues within the financial statements that have resulted in a required adjustment to the Pension Fund's reported financial position. Unadjusted misstatements and disclosure related audit adjustments identified during the course of the project are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and at the time of writing we have not identified any matters that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters:

- Completion of final internal quality reviews of significant risk areas (valuation of Level 3 investment assets, including Directly Held Property and Management Override of Controls);
- Receipt and review of audited financial statements in respect of two funds managed by LGPS Central – we have received unaudited statements but as at 19 October 2022 are still awaiting audited financial statements.
- Review of the final version of financial statements (including consideration against disclosure checklist);
- Receipt of management representation letter; and
- Review of the Pension Fund Annual Report.

As reported to the Pensions Committee on 21 September, through our sample testing, we have identified £94m of adjustable differences in the valuation of the Fund's investments disclosed in the financial statements at 31 March 2022 and the valuation statements received from the third-party investment managers. We have refined our extrapolation approach and this now extrapolates to a total uncertainty of £119m (previously reported as being £129m) - see page 21 in Appendix C for details.

We recognise the difference is primarily driven by timing differences on closing down the financial statements and receipt of final valuation statements and is not an uncommon finding at pension funds. Management are proposing not to amend the financial statements on the basis that the differences are not material quantitatively (0.6% of net investment assets) or qualitatively and the Pension's Committee and Audit & Risk Committee will be asked to confirm their agreement to this and confirm it within the Letter of Representation.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Chair and Vice Chair of the Pensions Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the receipt of the signed management representation letter.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance function and employees representing teams across the Fund.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan

We detail in the table below our determination of materiality for West Midlands Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	£200m	Per the audit plan, we set materiality based on a proportion of net assets. At planning we established an initial materiality of £180m. We have continued to update our assessment of materiality at the final accounts stage, which is reflected in the revised figure which represents 0.98% of the Fund's net assets, however we determined this benchmark remains appropriate.
Performance materiality	£140m	Based on the internal control environment at the Fund we determined that 70% of headline materiality would be an appropriate benchmark.
Trivial matters	£10m	We deem matters below 5% to be sufficiently trivial not to warrant drawing attention to the committee.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable risk that management override of controls is present in all entities. The Pension Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of normal business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness Our audit work has not identified any issues in respect of management override of controls. No changes in accounting policy, estimates or significant unusual transactions for which an appropriate business purpose could not be determined were identified during the course of our program of work.
Improper revenue recognition Under ISA (UK) 240, there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. As external auditors in the public sector, we are also required to give regard to Practise Note 10, which interprets the ISA in a public sector context and directs us to consider whether the assumptions also applies to expenditure.	Having considered the risk factors set out in ISA 240 and the nature of revenue streams at the Fund, we have determined that the risk of fraud arising from revenue and expenditure recognition can be rebutted because: • there is little incentive to manipulate expenditure and revenue recognition. • opportunities to manipulate revenue and expenditure recognition are very limited; • the nature of the Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions; • revenue contributions are made by direct bank transfers from admitted / scheduled bodies and are supported by separate schedules, as well as being directly linked to gross pay rendering improper revenue recognition in this area unlikely; • transfers into the pension scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving Funds; • historically the split of responsibilities between the Fund, the Depository and its Fund Managers (including those pooled with LGPS Central) provide a very strong separation of duties, reducing the risk around investment income; • the culture and ethical framework of local authorities, including the administering authority of the Fund, City of Wolverhampton Council means that all forms of fraud are seen as unacceptable. Therefore, at the planning stage, we did not consider this to be a significant risk for West Midlands Pension Fund. We have continued to update our risk assessment during the course of the audit. We have also sampled tested income as part of audit strategy. We have not identified any circumstances which would suggest an amendment to the rebuttal would be appropriate o required.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of Level 3 investments

The fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statement date.

By their nature, level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

Under ISA315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgements to reach an appropriate valuation at year end.

Management utilise the services of investment managers as valuation experts to estimate the value of these assets.

We therefore identified valuation of level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

We have;

- evaluated management's processes for valuing Level 3 investments.
- reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment to ensure the requirements of the CIPFA Code are met.
- independently requested year end confirmations from investment managers;.
- for a sample of investments, tested the reliability of the valuations provided by comparing audited valuations (per financial statements) to investor statements at the same date. Gained assurance over post audit movements with reference to indexation data, gaining corroboratory evidence from management for above threshold variances from expectation identified.
- where we were unable to obtain audited financial statements (or unable to reconcile investor statements to audited accounts), considered the competence and capabilities of the Investment Manager and reviewed Service Auditor Reports to gain assurance over design effectiveness of internal controls.
- completed sample testing of purchases and sales to prime documentation across the period to support our reconciliation of the opening and closing balances.
- analysed the fund's holdings by sector, applying an additional layer of professional scepticism and challenge in relation to any assets with potential exposure to the pandemic or other significant economic risks;
- engaged the Firm's internal actuary to provide assurance over the Admitted Body Separate Fund insurance buy-in valuation.

Per the Fund's accounting policies, and in common with other comparable bodies in the sector, a number of the Fund's level 3 assets are valued a quarter or more in arrears and, as such, given the requirement for the Fund to produce draft accounts within a time limited window the value within the general ledger and draft financial statements at the balance sheet date is a December 2021 or earlier valuation adjusted for known cash movements. Consequently, this will inevitably lead to a variance between the balances recorded in the Net Asset Statement for these assets and the actual, up to date March investor statements which are typically received after the Fund has prepared draft accounts. This timing variance can be especially pronounced in periods of significant market uncertainty or upheaval (both the pandemic and conflict in Ukraine have led to such instability in the final quarter of prior financial years).

As described above, a key element of our approach to auditing Level 3 asset valuations is to establish whether the valuations provided by fund managers are reliable. Once we have assurance over this reliability, we then attempt to quantify the timing variance by obtaining an updated schedule of Level 3 investments with as many March investor statement values included as possible. As at October 2022, we had identified a quantifiable positive timing variance of £94m (that is to say, the estimated value of these assets as at 31 March 2022 per investment management statements was £94m higher than the value recorded in the ledger and draft financial statements). Furthermore, in order to recognise the possible risk in relation to assets for which we had not received an updated March 2022 investor statement, we used our findings to extrapolate across the remaining population of assets valued in arrears. This suggested a possible further £25m estimation uncertainty (again a positive variance), totalling a possible £119m understatement of Level 3 investment assets. This value is below our performance materiality threshold and, as such, this is not above the threshold at which level our audit methodology would require us to request that the Fund post an adjusting entry prior to signing of the auditor's opinion. However, it is above our trivial threshold and therefore reportable to members. Management have opted not to amend on the grounds that the balance is not material both quantitatively and qualitatively

For clarity, this is in line with experiences with other comparable bodies from within the sector owing to market conditions and, as such, we do not deem this to be indicative of a control weakness at the Fund.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Directly Held Property (Level 3 Investment) (Annual revaluation) The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (expected to be around £1bn at the balance sheet date) and the sensitivity of this estimate to changes in key assumptions. Management engage the services of a valuer to estimate the value at the balance sheet date as well as an investment manager for the portfolio. We have therefore identified valuation of directly held property assets, particularly revaluations and impairments, as a significant risk.	We have - evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; - independently requested year-end confirmations from the investment manager; - evaluated the competence, capabilities and objectivity of the valuation expert; - written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA Code are met; - engaged our own valuer to assess the instructions to the Fund's valuer, the Fund valuer's report and the methodology and assumptions that underpin the valuation; - challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; - where available, reviewed the investment manager service auditor report on design effectiveness of relevant controls. We have no issues to report to members in relation to valuation of Directly Held Property.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

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Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £2,939.4m (net of direct property holdings and insurance buy in, which are discussed separately) These investments are typically unquoted investments and pooled investment vehicles and are not traded on an open exchange. The valuation of these assets is typically highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuations provided by investment managers which in turn are provided by experts employed by the private equity funds or similar vehicles in which the Fund invests.	These investments are not traded on an open exchange and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management typically rely on the valuations expertise of investment managers, supported by the Fund's own advisors and analysis of performance against the market and expectations. The value of the investments has increased by approximately £231m, reflective of gains of £459m (driven by a continued market recovery post pandemic) offset by net sales of assets totalling £228m.	As detailed in the previous section, we noted an estimated £119m understatement of assets in this area (comprising a quantifiable £94m and a further extrapolated £25m) stemming from the timing differences between valuation of assets and accounts production. This is not an unusual finding in relation to pension funds and the size of this is in relation to the market volatility which has occurred over last two accounting periods. However, our review of management's process for arriving at and accounting for the estimate did not suggest any control or process weaknesses and we are satisfied that the process is appropriate and assumptions not subject to undue optimism or management bias.	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious
Direct property holdings – £1,142m As above, the Fund has investments in direct property totalling over £1.1bn in 2021/22. These assets are hard to value and are therefore held at Level 3 in the Fair Value hierarchy, representing a significant estimate for the Fund.	Management forms its estimates of the valuation by placing reliance on the valuations expertise of its external valuer. The valuer provides quarterly investor statements which provide a valuation of the full portfolio held by the Fund. Management acknowledges the possibility of other appropriate valuations by providing a sensitivity analysis within its financial instrument disclosures. The value of the investment has seen valuation gains of approximately £191m in year, offset by asset disposals of £62m, reflective of a continued strong performance in property markets following the post pandemic recovery.	In response to the risk of material misstatement stemming from this estimate, Grant Thornton has engaged an independent auditor's expert to assess the methodology and assumptions used by managements expert as well as performing our own review of the capabilities and competence of the expert and consideration of the results of their work against national indices to look for any unusual movements, which were then subject to further detailed audit testing, Our conclusion is that management's process for arriving at the estimate is appropriate and free from undue optimism or management bias.	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £4,688m The Pension Fund have investments in unquoted bonds and pooled investments that cannot easily be reconciled to valuations recorded on an open exchange as the valuation of the investments involves some subjectivity. In order to determine the value, management rely on the information which they are given from the various fund managers.	As with Level 3 investments, management typically relies on valuation information provided by expertise proved by its fund managers, supported by assessment against the market and expectations by its advisors. This area of the accounts has experienced a significant (approximately £680m) uplift in valuation as a result of continued increases in asset valuations during the first three quarters of the 2021/22 year stemming from the continued market recovery following the impact of the Covid 19 pandemic.	Management's processes here are in line with our expectations and we are satisfied that their process for arriving at and accounting for the estimate is appropriate and not subject to undue optimism or bias. Testing in year did not note any above trivial timing variances of the kind identified within the Level 3 population and, as such, there are no unadjusted misstatement associated with this asset class.	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious
Admitted Body Separate Fund insurance buy-in valuation - £174m A bulk annuity insurance buy-in was put in place in 2012/13 as part of the ITA Pension Fund's risk strategy. This has now transferred to the West Midlands Pension Fund following the merger.	This cover means that the insurer underwrites the risk of meeting the future liabilities relating to West Midlands Travel Ltd. Pensioners on the payroll at 11 August 2011 in return for a one-off premium. This buy in is valued within the financial statements at £174m. The balance is highly subjective due to a lack of observable inputs. In order to determine the value, management have engaged their Actuary, Hymans Robertson. The value of this asset has declined by £26m in 2021/22 as a result of changes in demographic and actuarial assumptions in year.	Management's process for arriving at this value is based around usage of an external expert to determine the value. Grant Thornton have performed an assessment of the competence and capabilities of the expert, as well as engaging our own expert to calculate an independent estimate of the valuation as well as review the methodology and assumptions employed by management's expert. Our auditor's expert arrived at a very similar (within all trivial aspects) position as the Fund's expert and determined that the methodology and assumptions employed were reasonable and appropriate. On that basis we are satisfied that management's processes for calculating and accounting for the estimate are appropriate and free from undue optimism or management bias.	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

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Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Pensions Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed within the final version of the financial statements.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund. We are not requesting specific additional disclosures except for the recognition of management's rationale for not adjusting for the identified unadjusted misstatement.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Fund's investment management and banking partners This permission was granted and the requests were sent. The vast majority of these requests were returned with positive confirmation, however a small number of requests were not received. The overall value of the assets impacted is below trivial and therefore we have not had to performed additional procedures in this area.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. A small number of less significant disclosure amendments were agreed with management to enhance readers' understanding of the accounts. These are detailed in Appendices A – C.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

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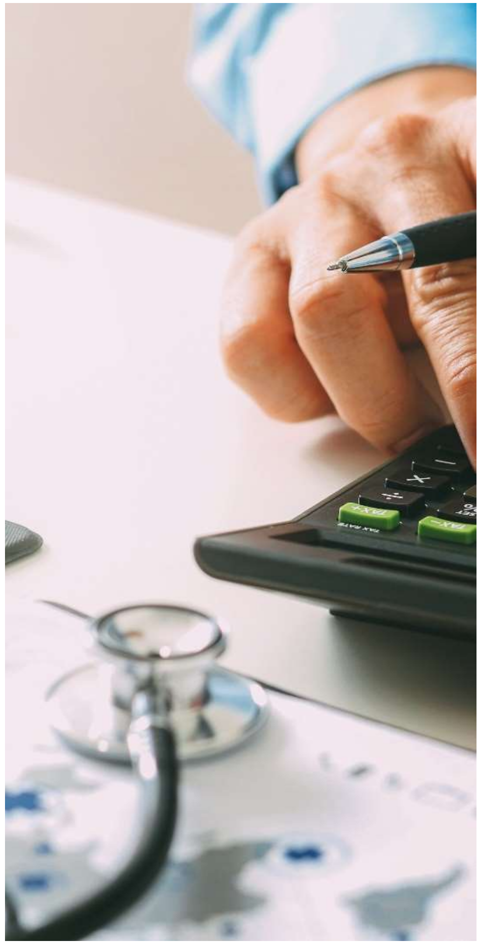
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to *Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020)*. The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	A small number of Inconsistencies have been identified but have been adequately rectified by management, as outlined in Appendices A - C. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. The statutory deadline for the Pension Fund Annual Report is different to that of the financial statements and it not required to be published until 1 December 2022. The Annual Report is being prepared and will be shared with us for consistency checks as soon as the audit of the financial statements has been completed and audited figures can be incorporated into the Annual Report. We have therefore not given this separate opinion at this time. Most recent discussions with management indicate that the Annual Report is in final stages of production and we anticipate being able to complete this work ahead of the statutory deadline. However, should the audit of the administering authority be delayed then we also need to delay the issuing of our consistency opinion.



3. Independence and ethics

Independence

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 (grantthornton.co.uk)]

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified which were charged from the beginning of the financial year to the report date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
IAS 19 procedures for other bodies admitted to the pension fund	18,000	Self-interest	This is a recurring fee and therefore poses a potential self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this of £18,000, in comparison to the total fee for the audit and in particular to Grant Thornton UK's overall turnover. Furthermore, the work is on audit related services, which the Fund's auditor would typically be best placed to provide. It is a fixed fee with no contingent element. These factors mitigate the perceived self interest threat to an acceptable level.

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Pensions Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified two recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Priority	Issue and risk	Recommendations
Low	For 2021/22, the GT audit team amended its approach to obtaining investment manager responses. As such a much larger number of requests were issued. During the course of this work, we identified that the Fund does not routinely reconcile its list of investment manager contacts to its assets list. Doing so would provide additional assurance to management that communications are not being missed and streamline completion of audit procedures.	Management should implement a policy of reconciling its list of investment manager contacts to its asset listing on a periodic basis. **Management response** Agreed. The Fund maintains a database of its investment managers and updates the database when it receives and validates requests for changes to information held from investment managers. Separate to this, the Fund maintains a record of the values of all investments on a consolidated investment schedule. Going forward, the Fund will include the names of investment managers on its consolidated investment schedule. This will enable ease of reconciliation between investment manager contacts and asset list.
Low	Approximately £1.5bn of the Fund's assets are managed by a particular fund manager via investment vehicles for which there is no requirement to produce audited financial statements. These assets are typically index linked pooled investment vehicles and therefore assurance over them is gained via reference to expected performance against the benchmark index. We were informed that management assures itself by: • reviewing the report produced by the investment manager which compares performance of the various investment assets against benchmark, and • regularly preparing a schedule that corroborates the quarterly indexation information within the report. The schedule referred to above was only provided to us towards the end of our audit and we had to undertake alternative audit procedures in its absence. From review of the paper provided it does appear to address the expected areas but could be refined.	Management should ensure the corroboration schedule is prepared quarterly and refined to ensure it links to underlying supporting index information as part of ongoing quarterly accounts production procedures. **Management response** Agreed. The Fund will refine the supporting schedule for reviewing asset performance against benchmarks to include references to underlying supporting information.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of West Midlands Pension Fund's 2020/21 financial statements, which resulted in two recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and make the following report on progress to members.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Our auditor's external expert noted that there is no formal Terms of Engagement between the Fund and its external property valuer. We recommended that management seek to resolve this issue during 2021/22.	Our auditor's expert valuer commissioned as part of the audit process has confirmed that the evidence provided by the Fund demonstrates the matter has been appropriately addressed.
✓	We struggled to independently obtain direct investment confirmations from a small number of investment managers representing around 1.5% of our level 3 sample (approximately £36m in value). The Fund holds copies of the statements sent to them but auditing standards require us to independently obtain confirmations to help mitigate the potential risk of fraudulent reporting. We recommended that management look to build in conditions requiring direct response to the auditors as part of its agreements with investment managers in future years.	In response to discussions with management following last year's audit, we updated our approach by enlisting the help of an internal service function within the Firm to help us manage the high volume of direct requests. This enabled us to make requests to 100% of the Fund's investment managers as opposed to testing existence on a sample basis as in previous years. As at the report date, we were not able to obtain responses from a small number of investment managers. The total value of the assets under management in question is below trivial and therefore, in our view, does not represent a risk of material misstatement. Overall, the response rate is greatly improved. Furthermore, we understand that in some cases arrangements may be demising leading to a change in relationships and obligations with investment managers, leading to some inevitable issues when combined with the high volume of individual investment managers. In addition to the recommendation made in Appendix A in relation to reconciling the asset list to the investment manager contact list, we recommend that management continue to work proactively with its investment managers to ensure continued high response rates.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Page 20

Impact of adjusted misstatements

There were no issues noted during the course of our audit work which required the posting of an adjusting accounting entry to the Financial Statements.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
A small number of disclosures within the Financial Instruments notes within the draft financial statements were not internally consistent with the core financial statements and related notes.	The engagement team recommended and agreed amendments which have been reflected in the final version of the Financial Statements.	✓
Testing of Related Party Transactions identified an omitted related party.	The engagement team recommended and agreed an updated disclosure with management, which has been reflected in the final version of the Financial Statements.	✓
Our review of Key Management Personnel disclosures identified that the draft disclosures were not Code compliant.	Management prepared alternate disclosures appropriately disclosing the year on year movement on the pension entitlement of individuals identified as Key Management Personnel within the Long Term Benefits line item of the disclosure note. This has been reflected in the final version of the Financial Statements.	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Pensions Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Pension Fund Account £m	Net Asset Statement £m	Impact on total net assets £m	Reason for not adjusting
Quantifiable understatement of investment assets as detailed within the body of the report.	(94)	94	94	Not material quantitively or qualitatively.
Related estimation uncertainty based on extrapolation of residual “time lagged” assets for which updated valuation reports were not available at the report date.	(25)	25	25	Not material – extrapolation and therefore indicative only
Overall impact	£(119)m	£119m	£119m	

Impact of prior year unadjusted misstatements

A similar timing issue was identified in the prior period. Given that asset valuations are a continually updating estimate, there is no cumulative impact of prior year unadjusted misstatements in the current period as quarterly valuations are superseded by new valuation sin year. The prior period extrapolated timing variance is included below for reference purposes (please note; the engagement team’s testing approach was enhanced during 2021/22 to become more focused and allow for analysis between quantifiable and extrapolated variances, hence the two line reporting format in 2021/22.

Detail	Pension Fund Account £m	Net Asset Statement £m	Impact on total net assets £m	Reason for not adjusting
Extrapolated timing variance between updated year end values and balances per Net Asset Statement.	(90)	90	90	Not material – extrapolation and therefore indicative only.
Overall impact	£(90)m	£90m	£90m	

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Pension Fund Audit	68,486	TBC
Total audit fees (excluding VAT)	£68,486	TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services (provision of IAS 19 assurance to member employer auditors)	TBC	£18,000
Total non-audit fees (excluding VAT)	TBC	**£18,000**

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[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP
17th Floor,
103 Colmore Row,
B3 3AG

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Grant Thornton UK LLP

West Midlands Pension Fund
Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of West Midlands Pension Fund for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include those for the valuation of directly held investment properties and the admitted body separate fund insurance buy-in. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

    a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Fund has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

x. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We confirm that the financial statements have not been updated to reflect the final confirmed March 2022 valuations for some of the investments which would have increased investment valuations by £94m. We cannot amend for your additional extrapolated uncertainty of £25m. We consider the effect of the total uncorrected misstatement of £119m is immaterial to the financial statements as a whole, both quantitatively and qualitatively. The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We have updated our going concern assessment. We continue to believe that the Fund’s financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that:

a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the Fund to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Fund’s system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xiv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Fund via remote arrangements from whom you determined it necessary to obtain audit evidence.

xv. We have communicated to you all deficiencies in internal control of which management is aware.

xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xx. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.

xxii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors. We have drawn to your attention all correspondence with The Pensions Regulator confirmed to us by all of our other advisors.

xxiii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Fund’s Pensions Committee at its meeting on (TBC)

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position…………………………..

Date…………………………….

Signed on behalf of the Fund

The Audit Findings for City of Wolverhampton Council

Year ended 31 March 2022

28 November 2022

Contents

Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit and Risk Committee.

Jon Roberts

Name : Jon Roberts
For Grant Thornton UK LLP
Date : 22 November 2022

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of City of Wolverhampton Council Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed in a hybrid way during July-November. Our findings are summarised on pages 5 to 25. Our work is still ongoing and therefore all adjustments have not yet been determined and concluded upon. The Audit adjustments identified to date are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

There are a number of matters still underway as at the time of writing but from the work done to date there are no matters of which we are aware that would require modification of our audit opinion. The outstanding matters are set out on page 6.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified regarding the financial statements.

As noted later in our report the issuing of our report is likely to be delayed as we await the outcomes on the on-going sector discussions in respect of accounting for infrastructure assets and the anticipated statutory override from Government.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay has previously been issued to the committee on the 26 September 2022. We expect to issue our Auditor's Annual Report by 31 January 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of medium-term financial resilience, group governance and the Civic Halls refurbishment. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We would expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in January 2023. However, despite the Council being below the Whole of Government accounts threshold for detailed work, we cannot complete our return and issue our certificate until the form and guidance are issued.

The Department for Levelling Up, Housing & Communities (DLUHC) are continuing to work on a Statutory Instrument with regard to infrastructure assets, with a plan to this being laid in Parliament on 30 November 2022 and coming into force on 25 December 2022. They continue to liaise with audit firms, and It is therefore hoped that this Statutory Instrument, together with updates to the CIPFA Code, will resolve the majority of the ongoing audit challenges related to infrastructure asset balances. Until the Statutory Instrument comes into force we are unable to provide an audit opinion.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed with the Audit and Risk Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group business and is risk based, and in particular included:

- An evaluation of the group internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response.
- From this evaluation we determined that specified audit procedures for Wolverhampton Homes Limited were required and for the City of Wolverhampton Housing Company an analytical review was required; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to substantially change our planned audit approach. We did, however, undertake additional testing in respect of reliefs given to council tax and business rates payers (see page 9).

Since the year end the UK has been moving into a significant economic downturn, we have considered the impact of this development through our post balance sheet events considerations.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we would normally anticipate issuing an unqualified audit opinion following the Audit and Risk Committee meeting on 28 November 2022. However, as noted on page 4, we are unable to provide our opinion until the Statutory Instrument regarding infrastructure assets comes into force.

The outstanding matters are listed on page 6 and are as at the time of writing. We will update the Committee verbally of progress against these matters at the meeting on 28 November.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements

Status of the audit: the outstanding matters as at the time of writing are set out below:

- Receipt of responses from management in respect of the valuations of other land and buildings and our consideration thereof
- Review of managements assessment with regards to the movement in property, plant and equipment valuations between the valuation date and the year end.
- Review of the changes made by the Council's external valuer, Jones Lang LaSalle, in respect of the valuation of council dwellings
- Receipt of responses from management in respect of the valuations of investment property and our consideration thereof
- Final manager and engagement lead review of all the above once completed

- Receipt of the evidence to support that our sample of assets held with nil net book value remain in the ownership of the Council
- Review of the bad debt provision and expected credit losses
- Review of responses from management in respect of our queries in relation to revenue grants received in advance and their disclosure within the financial statements and our consideration thereof
- Receipt of the IAS19 assurances from the pension fund auditor
- Review of responses from management in respect of our grant queries in relation to grant income and our consideration thereof
- Review of the transfers between the Housing Revenue Account and the General Fund
- Final manager and engagement lead review of all the above once completed

- Review of management's response in relation to the seven journals which are split between user IDs to identify whether a control weakness exists
- Receipt and review of the updated financial statements
- Obtaining and reviewing the management letter of representation
- Updating our post balance sheet events review, to the date of signing the opinion

Status

- High risk area for the audit of the financial statements
- Medium risk area for the audit of the financial statements
- Low risk area for the audit of the financial statements

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised the materiality and performance materiality values since the audit plan. This is due to a decrease in gross revenue expenditure.

We detail in the table on this page our determination of materiality for City of Wolverhampton Council and group.

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	11,000,000	10,900,000
Performance materiality	7,700,000	7,630,000
Trivial matters	550,000	545,000

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested high risk unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. We identified a control deficiency whereby certain journal types can be posted to the system by the same user inputting the journal without prior authorisation. We have assessed the risk of these journals and appropriately included the risk when identifying high risk journals for testing. Our review of these journals has not identified any errors or instances of management override of controls. We identified seven journals which have been split between different user ids which net to zero. Whilst this has no impact on the financial statements, we are discussing with management the reasons for this. Our detailed testing of the journals and accounting policies is complete. We have not identified any issues, other than the control recommendation detailed above, from our work. Our review of significant estimates in the financial statements has identified a couple of matters which are reported on in more detail later in this report. These errors are in relation to; the valuations of property, plant and equipment, the valuations of investment property and the net pension liability. Our work on these areas is on going and an update on these areas is included on pages 16 – 20.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Risk of fraud in revenue recognition and expenditure Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including City of Wolverhampton Council and its subsidiaries mean that all forms of fraud are seen as unacceptable. Whilst not a presumed significant risk, we have had regard to Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure may well be greater than that of income. Because of this we have also considered and rebutted the risk of improper recognition of operating expenditure. We will, however, continue to recognise the heightened audit risk in this area and reflect that in our testing of the year-end position.	Notwithstanding that we have rebutted this risk, we have still undertaken a significant level of work on the Council's revenue streams and expenditure, as they are material. We have: Accounting policies and systems • Evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code. • Updated our understanding of the Council's business processes associated with accounting for income. Fees, charges and other service income • Agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. Taxation and non-specific grant income • Income for national non-domestic rates and council tax is predictable and therefore we have conducted substantive analytical procedures. We also identified the reliefs given to payers, understood and documented the process for assessing claims and eligibility and then conducted substantive testing across the most significant reliefs. Our testing on reliefs is additional to our planned approach as set out in our Audit Plan. • For other grants we have sample tested items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. We have also tested a sample of income received and invoices raised post year-end to test for any transactions which have not been included within the financial statements, but related to the 2021/22 financial year. Expenditure • Updated our understanding of the Council's business processes associated with accounting for expenditure. • Agreed, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence. We have also tested a sample of payments made and invoices received post year-end to test for any transactions which have not been included within the financial statements, but related to the 2021/22 financial year. Our audit work has identified some disclosure issues, these are detailed in Appendix C. No other issues have been identified.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of land and buildings, council dwellings and investment properties

Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. The Council revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date.

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

The Council has changed valuer of its other land and buildings and investment property in the year. The valuer for 2021/22 is Wilks Head & Eve (previously Bruton Knowles).

The Council's valuer for council dwellings has remained consistent with the previous year. The valuer for 2021/22 is Jones Lang LaSalle.

We therefore identified valuation of land and buildings, council dwellings and investment properties, particularly revaluations and impairments, as a significant risk, requiring special audit consideration.

We do not consider this risk to apply to the other components within the group as neither Wolverhampton Homes or City of Wolverhampton Housing Company Limited has material land and buildings which is carries as property, plant and equipment.

Commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- communicated with the valuers to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- compared the assumptions within this year's valuations with the previous year to identify any potential errors;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and,
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Council Dwellings

We have identified a number of errors in relation to the valuation of council dwellings. This has led to the Council's valuer, Jones Lang LaSalle (JLL), making several adjustments to their original valuation. These include:

- 93 bungalows valued under the incorrect archetype;
- 948 properties which are of non-traditional construction which have been valued as if they were of traditional construction;
- 605 properties which are of traditional construction which have been valued as if they were of non-traditional construction;
- one beacon property which was no longer in the stock list but had been used to form the valuation of the archetype; and
- a change in the valuation of three beacons having re-examined the market evidence.

We have challenged the report produced by JLL as we were unable to reconcile the report to the underlying source data provided. We have since received a response and are in the process of reviewing this. The error is currently estimated to be an overstatement of £4.7m in the Council's Balance Sheet. As we have not completed our testing in this area, this has not yet been adjusted by the Council.

The Council provided a schedule of 21,740 Council Dwellings to the valuer for valuation as at 31.03.22. We noted this included 21 Void properties earmarked for demolition. These properties are non-operational and should not therefore have been included in the schedule of operational Council dwellings provided to the valuer for valuation. Instead the Council should have assessed which category of PPE these assets should properly sit within, and requested the valuer to value these using the appropriate valuation basis. The Cumulative EUV-SH of these properties recognised on the balance sheet within Council Dwellings is £1,008,840. The Council is currently estimating what the monetary impact of this would be.

The Council also holds a significant number of housing assets as non-beacon properties. We recommend that the Council considers whether any of these assets could be assigned to an archetype.

Our sample was 20 beacons of which 19 passed and 1 failed our testing, the impact of which is detailed above.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings, council dwellings and investment properties (Continued) Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. The Council revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings, council dwellings and investment properties, particularly revaluations and impairments, as a significant risk, requiring special audit consideration. We do not consider this risk to apply to the other components within the group as neither Wolverhampton Homes or City of Wolverhampton Housing Company Limited has material land and buildings which is carries as property, plant and equipment.	Land and Buildings We have reviewed a substantial level of information in relation to the valuation of land and buildings within the Council's financial statements. Our work in this area is not yet complete. We are awaiting responses in relation to a number of queries we have directed to management and the valuer, Wilks Head & Eve (WHE). We are expecting that there will be a prior period adjustment due to an error which has been identified in the current year audit. This error relates to the valuation of schools. The valuation as at 31st March 2021 did not include the base area for schools which is required under Department for Education guidelines. The base area reflects the cost of construction of the school as well as the supplementary areas of the school such as staff rooms, playgrounds and other amenities. The Council currently classifies the Civic Hall as other land and buildings within Note 8. However, this asset should be classified as an asset under construction in line with the Code. The Council is currently assessing the impact of this on the financial statements. We have also identified an asset which is incorrectly classified as other land and buildings within Note 8. This asset is deemed to be non-operational as at 31 March 2022 and should therefore be reclassified into either surplus assets or assets held for sale. The Council is currently assessing the impact on the financial statements and considering whether any additional assets could be affected. Loxdale Primary School Land - This asset is currently classified within operational Other Land and Buildings and valued on an Existing Use Value (EUV) basis. However based on comments made by the valuer we challenged the Council on whether the classification is correct, or the asset should properly be classified as either surplus or assets held for sale, which would be valued on the basis of current market value. The Council confirmed that this asset should properly be classified as 'Surplus' as the asset was not operational at the 31 March 2022. The valuers view is that 'In this instance EUV is reflective of Current Market Value' and therefore no change to the carrying value is considered necessary. Our work on this area is currently outstanding as we are awaiting confirmation from Management as to whether any further errors exist. City Archives - Our audit review of year on year movements in valuations identified an error in the prior year valuation for this asset. The DRC valuation for the prior year used a BCIS rate for Art Galleries, which is not consistent with the nature of the asset and its use. Application of the correct BCIS rate for the prior year valuation results in a valuation £1,035k lower than that previously recognised. Our initial sample was 31 assets, of which 6 have passed and we are continuing to challenge the valuations of 25 assets. Several of these assets are due to the same query which is in relation to the build dates used in the obsolescence calculations. There are a number of other queries which we are currently awaiting responses to. This also includes our challenge on how management has satisfied themselves that assets not revalued are not materially different to current value at year end. Investment Properties Our work on this area is not yet complete as we are awaiting responses to a few queries which we have raised to management and the valuer. Our initial review of the Wilkes Head and Eve valuation report and supporting schedules has identified a potential issue in terms of the valuation basis adopted for some assets that do not align with the Council's accounting policies and the CIPFA Code. For example, the valuation basis for HRA shops is noted as EUV, however these are investment properties and should be valued at Fair Value. The Council have had confirmation from the valuer that this was an oversight and will not change the values of these assets.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of the pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£686m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.

Commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;
- obtained assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements; and
- tested that the actuarial report provided to Wolverhampton Homes Limited (WHL) has been correctly reflected in the group pension disclosures and that the assumptions used are reasonable.

Our work in this area is substantially complete and we are waiting for the final assurances from the auditor of the West Midlands Pension Fund which will align with signing dates. We also need to review the adjustments made by the Council as a result of two items from the audit of the West Midlands Pension Fund. The first adjustment relates to a timing difference where the Fund records the value of a number of its investments on a lagged basis, meaning the value is based on the value at the previous quarter adjusted for know cash movements, this is a situation that occurs each year. The second adjustment is in relation to the rate of return used to calculate the value of its investments. The Actuary's initial rate of return was lower than the actual rate based on the Pension fund's financial statements. The Council has obtained a revised report from the actuary covering both adjustments which has resulted in a reduction of the pension fend net liability of £7.9m

We are awaiting formal notification of the total impact from the pension fund auditor. Once this is received, the Council have expressed that they will make the adjustment to the financial statements. Our work on this area is not yet complete due to the matters outlined above.

2. Financial Statements – Other risks

Risks identified in our Audit Plan	Commentary
Operating Expenses Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.	We have: • evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness; • gained an understanding of the Council's system for accounting for non-pay expenditure; • applied elevated risk procedures and tested a sample of balances included within trade and other payables; • tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period; and As part of our testing of creditors, we have identified 6 errors totalling £55k. The errors have arisen due to: - the Council over accruing for an expense where the invoice had not yet been received; - the Council recognising expenditure which related to the 2022/23 financial year as a creditor is 2021/22; and - the Council including invoices in their creditors which no longer have an obligation The impact is an overstatement of creditors, the extrapolated error is £2,614k. As this is below our performance materiality we are satisfied that this does not indicate a material issue. As this is an estimated error, the Council have not adjusted the financial statements but we have considered its impact as an 'unadjusted misstatement'.
Level 3 Investments – Birmingham Airport The Council has an investment in Birmingham Airport Holdings Limited (BAHL) that is valued as a Level 3 investment. By their nature Level 3 investment valuations lack observable inputs. This is because these shares are not quoted on a stock exchange and are valued using non-observable data. In order to determine the value, management commissions a review to ascertain the valuation of the investment as at the balance sheet date using an earnings based approach. Earnings multiples are based on an average of the lower-quartile earnings and transaction multiples for the industry, in this case, airports. The valuation of the Council's shareholding in Birmingham Airport Holdings Limited therefore represents an estimate by management in the financial statements due to the sensitivity of the estimate to changes in key assumptions. We therefore identified the valuation of the investment in Birmingham Airport Holdings Limited as risk requiring particular audit attention.	We have: • evaluated management's process in determining the fair value through use of an expert; • appointed our own internal experts to review the valuation and appropriateness of the methodology applied by the lead Council, Solihull MBC. This has been completed as part of Solihull's audit and, as part of this audit, we have sought assurances from our Solihull team; • considered the reasonableness of the estimate; and • reviewed the adequacy of the disclosure of the estimate in the financial statements. Our work on this area is complete and we have not identified any issues.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Wolverhampton Homes Limited	Grant Thornton UK LLP	Wolverhampton Homes Limited is a member of the Local Government Pension Scheme and a member employer of the West Midlands Pension Fund. The misstatements identified on page 11 which affect the Council, also affect the pension fund net liability of Wolverhampton Homes Limited. Wolverhampton Homes Limited have therefore adjusted their financial statements by reducing their liability for £1.2m due to the rate of return error. We are awaiting the pension fund auditor's letter to identify whether a further amendment is required before we conclude on this significant risk area.	This adjustment will affect the group balance sheet.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

Issue	Commentary
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PP&E note Infrastructure assets includes roads, highways and streetlighting. In 2021/22 the Council spent £4.8m on Infrastructure capital additions. As at 31 March 2022, the net book value of infrastructure assets was £141.4m which is over 17 times materiality. In accordance with the CIPFA Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address: 1. The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. 2. The risk that the presentation of the PP&E note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response.	To address this risk we: • reconciled the Fixed Asset Register to the Financial statements • obtained assurance that the UEL applied to Infrastructure assets is reasonable • documented our understanding of management's process for derecognising Infrastructure assets on replacement and obtained assurances that the disclosure in the PP&E note is not materially misstated. **Findings** We have completed the work as set out above. The Council does not derecognise Infrastructure assets on replacement. As such, we cannot conclude that the disclosure is not materially misstated. This is a national issue and, as set out on page 4, the Department for Levelling Up, Housing & Communities (DLUHC) are continuing to work on a Statutory Instrument with a plan to this being laid in Parliament on 30 November 2022 and coming into force on 25 December 2022. They continue to liaise with audit firms, and It therefore is hoped that this Statutory Instrument, together with updates to the CIPFA Code and forthcoming guidance on UELs, will resolve the majority of the ongoing audit challenges related to infrastructure asset balances

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

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Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £511.1m (per the draft financial statements)	The Council has engaged Wilks Head & Eve (previously Bruton Knowles) to complete the valuation of these properties. The Council has revalued £494.2m of its other land and buildings which represents a substantial percentage of the Council's asset base. The Council requires that the remaining assets are subject to a full, formal valuation on a five yearly cyclical basis. The Council seeks assurance that any assets not valued as at 31 March 2022 are not being held at a value which would be materially different to if they had been valued as at the balance sheet date. They do this through a desktop review undertaken by their valuers to test for any material movement in market value. We are currently in the process of reviewing the Council's assessment. Other land and buildings revalued in 2021/22 comprised specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings revalued in 2021/22 are not specialised in nature and are required to be valued at existing use value (EUV) at year end. The total net book value of other land and buildings was £511.1m, a net increase of £89.9m from 2020/21. Management and their valuer have taken into account available market data, and considered a range of available indices, and have used this to determine an appropriate estimate for the indexation of the Council's land and buildings.	We have engaged our own valuer to assist with our work and challenge in this area. There has been a change to the Council's valuer this year, this has led to additional challenge with regards to different assumptions used by Wilks Head & Eve. We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging the floor areas. We have discussed the appropriateness of the indices and assumptions used by the Council's valuer and are awaiting responses to our queries before we can conclude on this work, but have already identified some errors as set out on page 11.	TBC

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £50.8m	The Council has engaged Wilks Head & Eve (previously Bruton Knowles) to complete the valuation of properties as at 1st January 2022. All of the investment property assets were revalued during 2021/22. Investment properties are valued at fair value. Fair values have been determined by multiplying the estimated net income by an appropriate investment yield or by reference to the value of similar assets. The total year end valuation of investment property was £50.8m. A net increase of £5.2m, due to revaluations, from 2020/21.	We have engaged our own valuer to assist with our work and challenge in this area. There has been a change to the Council's valuer this year, this has led to additional challenge with regards to different assumptions used by Wilks Head & Eve. We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging the floor areas. We have discussed the appropriateness of the indices and assumptions used by the Council's valuer and are awaiting responses to our queries before we can conclude on this work, but have already identified some errors as set out on page 11.	TBC

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £890.6m	The Council owns in excess of 21,000 properties and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The year end valuation of Council Housing has risen significantly again this year from £844.3m at 31 March 2021 to £890.6mk at 31 March 2022.	We have engaged our own valuer to assist with our work and challenge in this area. The Council have the same valuer as in previous years, Jones Lang LaSalle. We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging the floor areas. We have set out our findings in relation to the valuation of council housing on page 10. We have tested that properties are included in the correct beacon, and that the valuations used are appropriate given the area and reduction for the social use factor. Our work in this area is ongoing due to the issues outlined on page 10.	TBC

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £694.3m	The Council's net pension liability at 31 March 2022 is £694.3m (PY £842.8m) comprising the West Midlands Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	• We have no concerns over the assessment of management's expert • We have no concerns over the assessment o the actuary's approach taken • We have used PwC as auditors expert to assess assumptions made by the actuary – see table below for the comparison made • No issues were noted in the completeness and accuracy of the underlying information used to determine the estimate • We have confirmed that the Council's share of LGPS pension assets is in line with expectations • We have confirmed that the increase in the estimate is reasonable • The disclosure of the estimate in the financial statements is considered adequate	TBC

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.7%	2.7 – 2.75%	✓
Pension increase rate (CPI)	3.2%	3.15 – 3.30%	✓
Salary growth	4.2%	3.65 – 5.8%	✓
Life expectancy – Males currently aged 45 / 65	22.9 / 21.2	21.4 – 24.3 / 20.1 – 22.7	✓
Life expectancy – Females currently aged 45 / 65	25.4 / 23.6	24.8 – 26.7 / 22.9 – 24.9	✓

As previously stated on page 12 we are currently awaiting the pension fund auditor's letter before we can conclude on this significant risk area.

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions - £14.7m The most significant of these provisions is the NNDR appeals of £10.3m.	The Council are responsible for repaying a proportion of successful rateable value appeals. Management use historic data relating to appeal success rates and the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) to calculate the level of provision required.	• We have not identified any issues with the completeness and accuracy of the underlying information used to determine the estimate. • We have considered the approach taken by the Council to determine the provision, and it is in line with that used by other bodies in the sector. • Disclosure of the estimate in the financial statements is considered adequate. • There have been no changes to the overall calculation method this year but see below for a change related to a specific item.	Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious

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Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £34.4m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.	We have: • assessed whether the MRP has been calculated in line with the statutory guidance; • assessed whether the Council's policy on MRP complies with statutory guidance; • confirmed there have been no changes to the Council's policy on MRP; and • considered the reasonableness of the MRP charge. Government have consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. Government will issue a full response to the consultation in due course.	Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Risk Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit and Risk Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to those organisations with which it banks, borrows and in which it invests. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions. See Appendix C for the most significant amendments made to disclosures. In addition, a small number of amendments were made to improve clarity for the reader.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. We have not encountered any significant difficulties with accounts closedown, production of draft accounts and working papers. The auditing standards in relation to estimates require us to apply heightened scrutiny over the estimates in the accounts, particularly property and pension valuations. For property valuations in particular, there has been significant enquiry and challenge to both sets of valuers over the inputs and assumptions applied, as detailed on pages 10 and 11. Our work on these areas is incomplete pending receipt of outstanding responses to our queries and our consideration thereof, details of the outstanding items are set out on page 6.

2. Financial Statements - other communication requirements

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Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other communication requirements

Page 52

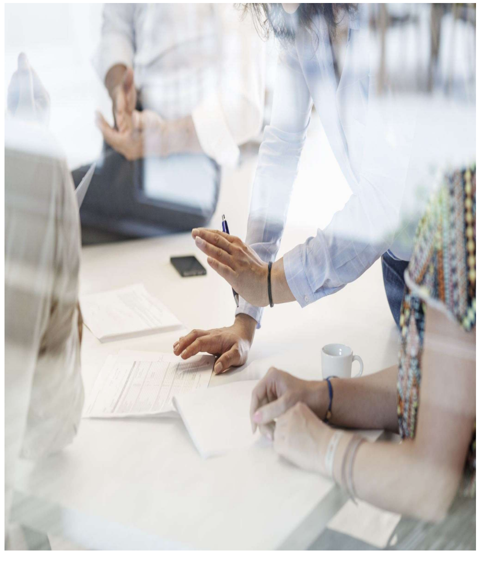
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern – Group	We are also required to be mindful of the group's ability to continue as a going concern. The group accounts consolidate the Council (going concern considerations for which are set out on the previous page) as well as Wolverhampton Homes Limited and the City of Wolverhampton Housing Company Limited. Wolverhampton Homes Limited Wolverhampton Homes Limited is reliant on the Council for a management fee, which typically provides around 87% of the Company's income The management fees are fixed every twelve months, with the long-term levels of management fee set indicatively within the Councils Housing Revenue Account business plan. The component auditors have considered the medium-term financial strategy, the cash flow forecast and associated available headroom, management's going concern assessment presented to the September Board meeting, along with the letter of support from the Council. The Council has also undertaken its own assessment to assure itself that the going concern assumption is appropriate in relation to this Company. We have no findings to report. City of Wolverhampton Housing Company Limited [trading as WV Living] WV Living's income is through loans provided by the Council as well as through house sales, the latter of which has been impacted due to the pandemic and resulting delays on building materials. The component auditors have considered the cash flow forecast, debt levels and managements assessment of going concern. The financial year was a strong one due to the sales made, in addition, debt levels have reduced. The cash flow forecast indicates that the Company has sufficient cash and loan facility funding to continue as a going concern. It has been deemed that there are no indication of events and conditions that indicate a material uncertainty or doubt over the ability of City of Wolverhampton Housing Company Limited to continue as a going concern.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to separate agenda item.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council does not exceed the specified group reporting threshold of £2 billion we are required to produce an assurance statement. We have been unable to commence the work as the guidance and reporting instructions have not yet been released.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of City of Wolverhampton Council in the audit report, pending completion of the WGA work and issuance of our Auditor's Annual Report.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We have previously issues an audit letter explaining the reasons for the to the committee. We expect to issue our Auditor's Annual Report by 31 January 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risks set out in the table below. Our work on these risks are underway and an update is set out below.

Risk of significant weakness	Work performed to date
Financial sustainability – We identified a risk of significant weakness in relation to the Council's financial resilience over the medium-term due to financial pressures the sector is facing over the medium-term.	We have completed the following procedures in relation to this risk: - Held meetings with senior management; - Reviewed and critically assessed the Council's financial strategies and supporting documentation; - Reviewed and critically assessed the budget setting and budget monitoring processes; and - Benchmarked the Councils key financial indicators against other Local Authorities;
Group Governance – We identified a risk of significant weakness in relation to group governance due to the nature of the Council's group and challenges seen at other local authorities.	We have completed the following procedures in relation to this risk: - Held meetings with senior management; - Reviewed and critically assessed current group governance arrangements; and - Compared the Councils governance arrangements against recent failures that have occurred in other Local Authorities and assessed how they mitigate or minimise the potential risk of failure.
Civic Halls refurbishment – We identified a risk of significant weakness in relation to the arrangements to achieve value for money during the Civic Halls refurbishment due the challenges it has faced and the overall cost of the project. This risk impacts our assessment of the economy, efficiency and effectiveness of the Council's arrangements.	We have issued a separate planning document that outlines our approach in this area.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report (grantthornton.co.uk).

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following audit related services were identified which were charged from the beginning of the financial year to 28 November 2022, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats	Safeguards
Audit related			
Housing Benefit subsidy certification 2020/21 (May 2021 – January 2022)	16,000	For these audit-related services, we consider that the following perceived threats may apply: • Self Interest (because these are recurring fees) • Self Review • Management	The level of recurring fees taken on their own is not significant in comparison to the confirmed scale fee for the audit of £220,173 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors all mitigate the perceived self-interest threat to an acceptable level. Our team has no involvement in the preparation of the form which is certified, and do not expect material misstatements in the financial statement to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to the audit of the financial statements, and is performed after the audit of the financial statements has been completed. The scope of work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagements in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management.
Certification of Pooling of Housing Capital Receipts 2020/21 (January 2022)	2,750		
Teachers Pension return 2020/21 (October – December 2021)	4,500		
Housing Benefit subsidy certification 2021/22 (May 2022 – January 2023)	19,000		
Certification of Pooling of Housing Capital Receipts 2021/22 (January 2023)	5,000		
Teachers Pension return 2021/22 (October – December 2022)	6,000		
Non-audit related			
N/a	N/a	N/a	N/a

Appendices

A. Action plan – Audit of Financial Statements

We have identified three recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium – Limited Effect on financial statements	**Revaluation Reserve** The Council's revaluation reserve supporting working paper shows a closing revaluation reserve balance as at 31st March 2022 of £194m. This is £3.5m larger than the closing revaluation reserve balance on the balance sheet £190.5m (See Note 13). The variance is non-trivial.	Management should review the revaluation reserve to identify the reason for the difference and correct either the balance sheet or their asset system in the next years financial statements. **Management response** We have identified the difference and determined that the Balance sheet (the General Ledger), hence the accounts, are correct and that the asset system needs amending. This variance is due to the crossover from a previous system to the current system. Our Systems Specialist has been working on this and now there remain only three assets to amend with a value of £1.1m. This will be cleared for 2022-2023.
High – Significant effect on financial statements	**Council Dwellings** The Council hold a significant number of assets as non-beacon properties within their Council Dwellings. These are valued via an uplift based on the movement of the assets which are within beacons.	The Council should consider whether any of these assets could be assigned to an archetype. **Management response** In 2021-22 we reduced the number of non-beacon properties and are having on-going discussions with the valuer to allocate more of the non-beacon properties to archetypes, for 2022-23.
Medium – Limited Effect on financial statements	**Journal types not authorised** Certain journal types (GL & ACR type journals) can be posted to the system by the same user inputting the journal without prior authorisation from a different user.	Management should implement controls to ensure these journal types are authorised. Alternatively, management should implement a compensating control to periodically review these journals. **Management response** The majority of ACR (accrual) type journals are posted to the system in one central upload by the closedown team. Before this is processed it is circulated to Budget holders, requisitioners and Finance officers to check. After it is posted to the system, budget holders and finance officers check again as part of accounts closedown and outturn. We allow finance officers to post any accruals that may have been missed on the central upload in order not to delay the closedown of accounts, but again they are checked afterwards as part of accounts closedown and outturn. The other GL journals which were posted directly were done by finance users only and tend to be miscoding corrections which are discussed with the budget holders. Journals posted directly amounted to 26 out of 272 which were done by 5 finance users. Going forwards we will build in an independent review by Finance Business Partners, of any journals posted by a single user.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of City of Wolverhampton Council's 2020/21 financial statements, which resulted in two recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note one is still to be completed.

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	MIRS consistency checker A consistency tool was provided to the Council to aid in its preparation of the draft accounts. The purpose of the tool is to help ensure that the financial statements are internally consistent. The tool was not used until after the draft accounts were produced leading to amendments.	Management have implemented the tool into their processes when preparing the financial statements.
X	Valuation process We previously recommended that officers enhanced its scrutiny of the year end valuations as well as review the in-year processes for disposals to ensure that any disposals made are notified to finance on a timely basis and actioned accordingly.	As detailed on pages 10 and 11 we have continued to find several errors in relation to the valuations of other land and buildings. Management response Following the recommendation, the Council introduced extra challenge and scrutiny through the use of the Estates Team and Senior Management, introducing sign off sheets and regular disposals meetings with service areas, so that all parties are kept informed. Officers annually run closedown and capital workshops where special training is given on capital closedown. As audit requirements continue to increase, the team each year have been introducing new checks. However due to the increase in audit scrutiny, the Director of Finance and Deputy Director of Assets are reviewing resources allocated to this work.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of potential further misstatements and uncertainties where audit work is not yet finalised

The table below provides details of potential adjustments that have been identified during the 2021/22 audit, but where our work is not yet complete. We have not yet reviewed the updated financial statements to confirm that these adjustments have been made. As our audit approaches completion we will need to ensure the values within this Appendix, in aggregate, do not give rise to material misstatement within the accounts. We therefore anticipate some further adjustments being made from this listing, along with further consideration of the qualitative impact of any final unadjusted matters (including where errors might net each other off, or where extrapolations could be reconsidered). The Audit and Risk Committee is required to approve management's proposed treatment of any unadjusted misstatements and we will provide a final list for this decision once our work is complete.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on net cost of services £'000
Wobaston Road, Land North of (i54)* This asset was classified as an Asset Held For Sale in the prior year. During 21-22 the Council revalued this asset upwards by £8,164k to mirror the FV valuation provided by the valuer at 1st January 2022. As per the Code assets held for sale should continue to be carried at the lower of their carrying amount and fair value less costs to sell. Recognition of any revaluation gains over and above the amount that it was initially recognised as held for sale are deferred until they are realised in a sale. On this basis the Council was incorrect to revalue this asset upwards to reflect the fair value valuation provided by its valuer. We are currently awaiting confirmation of the treatment of £2,400k of additions made to this asset and how they have been accounted for. Dr Revaluation Reserve Cr Assets Held For Sale	8,164 (Adjustment to OCI, therefore no impact on General Fund)	(8,164)	-
Overall impact	£8,164	(£8,164)	-

*We are currently in discussion with management as to whether this should have been classified as a surplus asset for some or all of the year. If the asset should have been classified as surplus, then revaluing the asset at fair value would have been appropriate, and this adjustment would be a reclassification of the full value of the asset rather than a reversal of the revaluation.

C. Audit Adjustments

Impact of adjusted misstatements

All adjusted misstatements, to date, are set out in detail below along with the impact on the key statements and the reported cost of services for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on net cost of services £'000
Investment Property Income and expenditure from Investment Property is £3.6m, and £0.5m respectively and has been recognised within the 'City Assets' line within Net Cost of Services. The classification is not in line with the Council's accounting policy which states that 'Rentals received in relation to investment properties are credited to the Financing and Investment Income and Expenditure line'. This error does not affect the overall surplus/defecit on the provision of services as it is a misclassification. Dr Cost of Services Cr Financing and Investment Income and Expenditure	(3,100)	-	3,100
Colton Hills Community School This asset is valued on a Modern Equivalent Asset basis based on forecast pupil numbers. The valuer omitted the forecast sixth form pupil numbers in error when valuing this school. This resulted in the asset valuation being understated by £1,741,500. Dr Property, Plant and Equipment Cr Revaluation Reserve	(1,742) (Adjustment to OCI, therefore no impact on General Fund)	1,742	-
Overall impact	(£4,842)	£1,742	£3,100

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C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Misclassification of i9 Office development During 2021/22 the Council purchased the i9 Office development. Within Note 8 Property, Plane and Equipment this has been recorded as an addition to Other Land and Buildings, and then subsequently transferred to Investment Property via the 'Other Changes - Gross value' line. The Council has determined that this asset meets the definition of an Investment property and therefore the addition should be recorded within the Investment property category. Entries within the OLB category and Other changes - Gross value line should be removed. The Net impact on the balance sheet is nil.	The Council should amend the Balance Sheet and Note 8 to reflect the i9 office development in the correct classification. This will have a nil impact on the total net current assets. Management response We will amend the financial statements for this finding.	TBC
Through our review of the accounts there were several typographical and consistency errors identified such as page references not being correct, amounts in primary statements not matching with the notes and grammatical errors.	Management should update their financial statements to correct these points. Management response We will amend the financial statements for this finding.	TBC
CIES - Financing and Investment income and expenditure On the face of the CIES Financing and Investment income and expenditure is reported as £47.2m gross expenditure. However, the supporting disclosure note 4 shows that this consists of expenditure totalling £53.9m and income totalling £6.7m.	The £47.2m within the CIES should be grossed up and separate amounts reported in the gross expenditure & gross income columns. (Note 1D Income and Expenditure by Nature will also require amendment - Currently both income and expenditure are understated by £6.7m). Management response We will amend the financial statements for this finding.	TBC
Grants Received in Advance There is no seperate revenue grants receipts in advance line within the balance sheet which should be included as per the Cipfa Code of practice on local authority accounting 2021/22 section 3.4.62. Currently, there are grant creditors totalling £98.7m that are included within the 'Creditors' line in the balance sheet.	The Authority should determine which of these meet the definition of a 'Grant receipt in advance', which are required to be recognised on a separate line in the balance sheet. Our work on this area is not yet complete as we are awaiting managements assessment. Management response We have identified the impact on the financial statements and will liaise with the auditors to adjust for this.	TBC

C. Audit Adjustments

Misclassification and disclosure changes (continued)

Disclosure omission	Auditor recommendations	Adjusted?
Note 8 Revaluation disclosure table The table discloses Other Land and buildings valued @ 31 March 2022 - £494.2. This figure includes a number of asset additions and de-minimis assets that were not subject to valuation during 21-22, and should therefore be reanalysed against the appropriate line.	The table should be amended to reflect the value of assets revalued as at 31 March 2022. Management response We will amend the financial statements for this finding.	TBC
Capital Commitments Capital Commitments reported on page 84 are reported as £68.9m. Audit testing back to supporting evidence has identified that the value should be slightly larger at £69.574m. The current disclosure therefore is understated by £674k.	The Council should update this disclosure on page 84. Management response We will amend the financial statements for this finding.	TBC
Heritage assets We have identified that disclosure requirement 4.10.4.1 b) (page 192) of the CIPFA Code has not been included in the financial statements. The Code requires that 'the financial statements shall set out the authority's policy for the acquisition, preservation, management and disposal of heritage assets. This shall include a description of the records maintained by the authority of its collection of heritage assets and information on the extent to which access to the assets is permitted. The information required by this paragraph may alternatively be provided in a document that is cross-referenced from the financial statements.'	The Council should update their accounts to comply with paragraph 4.10.4.1 b of the Cipfa Code Management response We will review the Code and update the financial statements accordingly.	TBC

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit and Risk Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Investment Property The Valuation date of the Council's Investment Property portfolio is at 1st January 2022. Using nationally published indices we have undertaken an assessment of the movement in value across the period 1st January 2022 to 31st March 2022. Our assessment is that had the assets been valued as at 31st March 2022 then the value would be £1,498k larger. Investment Property assets are therefore potentially understated by this value. Dr Investment property Cr CIES – Fair Value Gains on Investment property	(1,498)	1,498	-	Variance is estimated and is immaterial
Creditors From our sample selected, we have identified 6 errors totalling amount £55k. The impact is an overstatement of creditors, the extrapolated error is £2,614k. Dr Creditors Cr Expenditure	2,614	(2,614)	-	Variance is estimated and is immaterial
Overall impact	£1,116*	(£1,116)	-	

* Whilst we agree these are immaterial, if these were to be adjusted this would affect the Council's general fund balances

C. Audit Adjustments

Impact of prior year unadjusted misstatements identified within the 2021/22 financial statements audit

The table below provides details of adjustments identified during the current year audit which affect the 20210/21 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Aldersley Leisure Village Sports Hall - Land Our audit review of year on year movements in valuations identified an error in the methodology adopted by the Council's previous valuer when valuing the land element of a large site containing a building on an MEA basis. Using the year on year movement in valuation as a proxy for quantifying the error then in the prior year the land valuation for this asset was undervalued by c£1.4m. Additional work undertaken to establish the potential impact on other similar assets within the Council's portfolio has established that the maximum potential error is £1,998k. Dr Property, Plant and Equipment Cr Revaluation Reserve	(1,998) (Adjustment to OCI, therefore no impact on General Fund)	1,998	-	Impact is estimated and immaterial
City Archives Our audit review of year on year movements in valuations identified an error in the prior year valuation for this asset. The DRC valuation for the prior year used a BCIS rate for Art Galleries, which is not consistent with the nature of the asset and its use. Application of the correct BCIS rate for the prior year valuation results in a valuation £1,035k lower than that previously recognised. Dr Revaluation Reserve Cr Property, Plant and Equipment	1,035 (Adjustment to OCI, therefore no impact on General Fund)	(1,035)	-	Impact is immaterial
Bilston Retail Market Land Our audit review of year on year movements in valuations identified an error in the prior year valuation for this asset. The prior year valuation of the Market excluded the external market Land valuation in error. As a result the prior year valuation was understated by £1,071k. Dr Property, Plant and Equipment Cr Revaluation Reserve	(1,071) (Adjustment to OCI, therefore no impact on General Fund)	1,071	-	Impact is immaterial
Overall impact	(£2,034)	£2,034	£-	

C. Audit Adjustments

Impact of unadjusted misstatements identified within the 2020/21 financial statements audit

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements. When assessing unadjusted errors for 2021/22 we have to consider whether those unadjusted errors in the previous year when combined with our current year unadjusted misstatements could lead to a material error in aggregate. As the value in the previous year has a net nil impact on the balance sheet, this is not considered to be material.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
The Council had actioned a prior period adjustment to reflect that an assets disposed of during the year should have been classified as an asset held for sale in the previous period. As this was not material it did not meet the criteria of a prior period adjustment and therefore should have been corrected in year. This amendment reverses the prior period adjustment made.	-	-£1.6m Assets Held for Sale opening balances +£1.3m Other Land and Buildings opening balances +£0.3m Surplus Assets opening balances	-	Not considered to be material
Overall impact	-	-	-	

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
City of Wolverhampton Council Audit	£225,173	£TBC
Audit of subsidiary company Wolverhampton Homes Limited	£28,285	£TBC
Audit of subsidiary company City of Wolverhampton Housing Limited	£26,750	£TBC
Total audit fees (excluding VAT)	£280,208	£TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Housing Benefit subsidy certification 2021/22 (May 2022 – January 2023)	£19,000	£TBC
Certification of Pooling of Housing Capital Receipts 2021/22 (January 2023)	£5,000	£TBC
Teachers Pension return 2021/22 (October – December 2022)	£6,000	£TBC
Total non-audit fees (excluding VAT)	£30,000	£TBC

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