

CITY OF
WOLVERHAMPTON
COUNCIL

Audit and Risk Committee Meeting

Monday, 22 January 2024

Dear Councillor

AUDIT AND RISK COMMITTEE - MONDAY, 22ND JANUARY, 2024

I am now able to enclose, for consideration at next Monday, 22nd January, 2024 meeting of the Audit and Risk Committee, the following reports that were unavailable when the agenda was printed.

Agenda No Item

- 7 **Audit Findings Report – City of Wolverhampton Council (Pages 3 - 50)**

[To receive the audit findings report – City of Wolverhampton Council.]

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The Audit Findings for City of Wolverhampton Council

Year ended 31 March 2023

Page 3
22 January 2024



Agenda Item No: 7

Contents



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Section

1. [Headlines](#)
2. [Financial statements](#)
3. [Value for Money arrangements](#)
4. [Independence and ethics](#)

Appendices

- A. [Communication of audit matters to those charged with governance](#)
- B. [Action plan – audit of financial statements](#)
- C. [Follow up of prior year recommendations](#)
- D. [Audit adjustments](#)
- E. [Fees and non-audit services](#)
- F. [Auditing developments](#)
- G. [Management Letter of Representation](#)
- H. [Audit opinion](#)

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 will be presented to the Audit and Risk Committee.

Page

- 3
6
25
27

31
32
33
34
38
40
41
43

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.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of City of Wolverhampton Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2023 for the attention of 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 has been undertaken both on site and remotely, starting in October 2023. Our findings are summarised on pages 2 to 24.

We have identified two adjustments to the financial statements, which led to an adjustment to the Council's and group's Comprehensive Income and Expenditure Statement but did not result in a change to the Council's or group's net cost of services or surplus on provision of services. Audit adjustments are detailed in Appendix D.

We have also raised two recommendations for management – these are set out in Appendix B. One of these relating to segregation of duties in the IT system is high risk. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix H) or material changes to the financial statements, subject to the satisfactory resolution of the outstanding matters detailed 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 financial statements audit report opinion will be unmodified. Our work on the Council's Value for Money (VFM) arrangements has been completed. The outcome of our VFM work is reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR), which is presented alongside this Audit Findings Report at the Audit and Risk Committee on 22 January. We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

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 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 completed our VFM work, which is summarised on page 26, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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 have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Significant matters

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

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us to deliver an efficient audit. The Council published draft financial statements in September 2023, despite the ongoing audit of the 2021/22 financial statements which would have impacted the finance team's preparation for 2022/23, and the finance team provided supporting working papers and evidence in a timely manner.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of Councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by Councils' existing resources, we have also seen some Councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

City of Wolverhampton Council had borrowings of £720.6m as at 31 March 2023, comprising Public Works Loans Board (PWLB) loans at £611.5m and Lender Option Borrower Option (LOBO) loans at £108.9m. From our work on value for money, we have not identified any issues with the level of borrowing at the Council, its ability to repay the borrowing, or the uses for the borrowing.

National context – other national issues

There was national press coverage in September 2023 that reported some public sector building may contain Reinforced Autoclaved Aerated Concrete (RAAC), which is susceptible to structural failure in moist conditions. The existence of RAAC in a building is likely to shorten its expected useful life and as a result limit the building's service potential and value. This issue has been known about for several years. We enquired with management of the Council around the potential existence of RAAC in the Council's property portfolio as part of our audit of the 2021/22 financial statements. Management confirmed that a review of assets had been undertaken to assess Council-owned buildings and that this process had only identified one property affected by RAAC, which is not considered to result in a material impairment to the asset value.

There has also been recent publicity regarding equal pay, and the potential liabilities which some local authorities could face. We undertook enquiries as part of our work on the 2021/22 financial statements to determine whether further audit work might be required at the Council. Management commissioned Internal Audit to conduct a review of arrangements in place at the Council for mitigating the risk of equal pay claims, which resulted in an assurance level of 'satisfactory'.

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 presented to 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 and Council's business and is risk based, and in particular included:

- An evaluation of the group and Council's 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 the net pension asset/liability of Wolverhampton Homes Limited was required, which was completed by Grant Thornton UK LLP; 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 alter our audit plan, as communicated to you in November.

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 Audit and Risk Committee meeting on 22 January 2024, as detailed in Appendix H. These outstanding items include:

- testing of 6 journals posted during the period;
- completion of audit work on the group accounts consolidation;
- completion of audit work on the Cash Flow Statement;
- completion of audit work on the Movement in Reserves Statement;
- completion of other land and buildings, council dwellings, and investment property asset revaluations samples;
- completion of useful lives on vehicles, plant and equipment assets sample;
- receipt of 1 outstanding investment third party confirmation;
- testing of Collection Fund debtor balance;
- testing of the bad debt provision;
- completion of 4 creditor sample items;
- completion of 11 post year-end payment sample items;
- completion of 4 post year-end receipt sample items;
- completion of net pension liability testing;
- completion of payroll procedures, including starters, leavers and change in circumstances sample testing;
- completion of 18 council tax and business rates relief sample items;
- review of component auditor working papers relating to the gross pension assets and liabilities of Wolverhampton Homes Limited;
- completion of final audit quality reviews;
- receipt of management representation letter (see Appendix G); and
- review of the final set of financial statements.

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



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 thresholds as communicated to you in our Audit Plan presented in November 2023 due to the actual gross expenditure changing significantly from that anticipated at the planning stage, resulting in a review of the appropriateness of the materiality figure.

We set out in this table our determination of materiality for the Council and group.

Page 9

	Group amount (£)	Council amount (£)	Qualitative factors considered
Materiality for the financial statements	12.20m	12.00m	As communicated in our audit plan, we determined materiality at the planning stage to be £12.8m for the group and £12.1m for the Council, based on prior year gross operating costs. We reconsidered planning materiality on receipt of the draft financial statements and have updated our materiality threshold based on the draft current year gross operating costs.
Performance materiality	8.54m	8.40m	Performance materiality has been set at 70% of financial statements materiality. This reflects our risk assessed knowledge of potential for errors occurring. Performance materiality is used for the purposes of assessing the risks of material misstatement and determining the nature, timing, and extent of further audit procedures. It is the amount we set at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
Trivial matters	0.61m	0.60m	Taken as a proportion of the materiality threshold, we consider that any matters below this threshold would be clearly inconsequential, taken individually or in aggregate. We will report to you all misstatements identified in excess of £0.60m.

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	Risk relates to	Commentary
<p>Presumed risk of fraud in revenue recognition (rebutted)</p> <p>ISA (UK) 240</p>	Council and Group	<p>Under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement 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 related to revenue recognition.</p> <p>It was reported in our Audit Plan that we had rebutted the presumed significant risk of material misstatement arising from improper revenue recognition of the Council's and group's income streams. Our work has not identified any issues that would change our assessment.</p>
<p>Risk of fraud related to expenditure recognition</p> <p>PAF Practice Note 10</p>	Council and Group	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.</p> <p>It was reported in our Audit Plan that we had determined there was no significant risk of material misstatement arising from improper expenditure recognition of the Council's and Group's expenditure streams. Our work has not identified any issues that would change our assessment.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of controls, and in particular journals, management estimates, and transactions outside the normal course of business as a significant risk.</p>	Council and Group	<p>We have:</p> <ul style="list-style-type: none"> evaluated the design and implementation 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; and gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. <p>We did not identify any changes to accounting policies or estimation processes used by management.</p> <p>At the time of writing this report our work is subject to finalisation but our audit work to date has not identified any issues in respect of management override of controls.</p>

2. Financial statements - significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p>Valuation of land and buildings The Council revalues its land and buildings assets on a rolling basis.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£574.5m in the Council's Balance Sheet at 31 March 2023) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date.</p> <p>We therefore identified valuation of land and buildings as a significant risk of material misstatement.</p>	Council and Group	<p>We have:</p> <ul style="list-style-type: none"> engaged an auditor's valuation expert; evaluated management's processes and assumptions for the calculation of the estimates, the instructions issued to management's valuation experts, and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation experts; written to the valuers to confirm the basis on which the valuations were carried out to ensure that the requirements of the Code are met; challenged the information and assumptions used by the valuers to assess the completeness and consistency with our understanding;
<p>Valuation of council dwellings The Council revalues its council dwellings on an annual basis.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£953.3m in the Council's Balance Sheet at 31 March 2023) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date.</p> <p>We therefore identified valuation of council dwellings as a significant risk of material misstatement.</p>	Council and Group	<ul style="list-style-type: none"> assessed the instructions issued by the Council to the valuers, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations; 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 land and building assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end. <p>We have challenged the valuers' assumptions and the source data used by the valuers within their valuation calculations. This includes BCIS build costs, asset floor and land areas, and comparable asset market sales data.</p>
<p>Valuation of investment property The Council revalues its investment property on an annual basis.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£27.1m in the Council's Balance Sheet at 31 March 2023) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the fair value at the financial statements date.</p> <p>We therefore identified valuation of investment property as a significant risk of material misstatement.</p>	Council and Group	<p>From our detailed work on the valuations of other land and buildings assets, we have identified one asset where more accurate build cost information has been published since the valuation took place which has resulted in an overstatement of the asset's value in the 2022/23 financial statements. This misstatement is included in Appendix D.</p> <p>At the time of writing this report our work is subject to finalisation but our audit work to date has not identified any other issues in respect of valuation of land and buildings, council dwellings, or investment property.</p>

2. Financial statements - significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p>Valuation of net pension liability</p> <p>The net pension liability, as reflected in the Balance Sheet, represents a significant estimate in the financial statements.</p> <p>The net pension liability is considered a significant estimate due to the size of the numbers involved (£73.5m in both the Council's and group's Balance Sheets at 31 March 2023) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified the valuation of the net pension liability as a significant risk for the Council and for the Group.</p> <p>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 for the Council due to the methods and models used in their calculation. However, for the first time since IFRS have been adopted, the Council has had to consider the potential impact of IFRIC 14 "IAS 19 - the limit on a defined benefit asset" relating to the net pension asset of its subsidiary, Wolverhampton Homes Limited. Because of this we have assessed the recognition and valuation of the net pension asset within the group accounts as a significant risk.</p> <p>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.</p> <p>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. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.</p>	<p>Council and Group</p>	<p>We have:</p> <ul style="list-style-type: none"> updated our understanding of the processes and controls put in place by management to ensure that the net pension liability is not materially misstated and evaluate the design of the associated controls; evaluated the instructions issued by management to their management expert (the 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 pension fund valuation; assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liabilities; tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary; undertook 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 the 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's financial statements. <p>We have reported our detailed review of the estimation process in the key judgements and estimates section on page 17.</p> <p>The assurances obtained from the auditor of West Midlands Pension Fund identified a non-trivial error in the value of the share of assets attributable to the Council and therefore we have reported this as an unadjusted misstatement.</p> <p>We have rolled forward our audit work previously undertaken on the latest triennial valuation of the West Midlands Pension Fund as part of the audit of the 2021/22 financial statements and have not identified any issues.</p> <p>We have not yet undertaken our review of the component auditor working papers relating to the pension assets and liabilities of the Council's subsidiary, Wolverhampton Homes Limited.</p> <p>At the time of writing this report our work is subject to finalisation but, other than the unadjusted misstatement reported in Appendix D, our audit work to date has not identified any issues in respect of the net pension liability.</p>

2. Financial statements - other risks

This section provides commentary on the other audit risks communicated in the Audit Plan, in addition to the significant risks already identified.

Risks identified in our Audit Plan	Risk relates to	Commentary
<p>Completeness of non-pay operating expenditure</p> <p>Non-pay expenditure on other goods and services represents a significant percentage of the Council's operating expenses.</p> <p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). Management also uses judgement to estimate accruals of uninvoiced costs as at the Balance Sheet date.</p> <p>We therefore identified completeness of non-pay operating expenditure as a risk requiring particular audit attention.</p>	Council and Group	<p>We have:</p> <ul style="list-style-type: none"> 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; tested a sample of cash payments immediately prior to and following the year-end to ensure that the expenditure has been recognised in the correct financial period; and tested a sample of invoices received immediately prior to and following the year-end to ensure that the expenditure has been recognised in the correct financial period. <p>At the time of writing this report, our work is subject to finalisation but our audit work to date has not identified any issues in respect of completeness of non-pay operating expenditure.</p>
<p>Valuation of investment in Birmingham Airport Holdings Limited (BAHL)</p> <p>The Council holds a material investment in Birmingham Airport Holdings Ltd (BAHL). This is a level 3 investment is held at fair value (£27.2m in the Council's and group's Balance Sheets as at 31 March 2023).</p> <p>Management commissions a review to ascertain the valuation of the Council's investment 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.</p> <p>The valuation of this investment is subject to a high degree of judgement and as such the valuation of this investment is considered to be a significant estimate by management in the financial statements.</p> <p>We therefore identified the valuation of investment in BAHL held at fair value as a risk requiring particular audit attention.</p>	Council and Group	<p>We have:</p> <ul style="list-style-type: none"> evaluated management's process in determining the fair value through use of an expert; considered the reasonableness of the estimate; confirmed the mathematical accuracy of the Council's share of the investment; and reviewed the adequacy of the disclosures of the estimate in the financial statements. <p>We have written to the external auditor of Solihull MBC (the lead authority in relation to BAHL which acts on behalf of the West Midlands councils) to gain assurance over the valuation of BAHL. We have reviewed the response alongside the work performed and are satisfied with the conclusions reached.</p> <p>Our audit work has not identified any issues in respect of the valuation of investment in BAHL.</p>

2. Financial statements - key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Wolverhampton Homes Limited	Grant Thornton UK LLP	<p>Wolverhampton Homes Limited is a member of the Local Government Pension Scheme and a member employer of the West Midlands Pension Fund.</p> <p>We identified the net pension asset of the Company as a significant risk for the Group given the size of the balances involved (£212.6m gross assets and £174.5m gross liabilities at 31 March 2023) and the associated complex accounting treatment.</p> <p>We have not yet reviewed the work of the component auditor on the Company's gross pension assets and liabilities.</p> <p>An unqualified audit opinion of Wolverhampton Homes Limited was issued by Grant Thornton UK LLP on 18 December 2023. No significant issues were identified.</p>	TBC

Page 14

As communicated in our Audit Plan, we also expected to undertake analytical procedures at group level on the financial information of City of Wolverhampton Housing Company Limited (trading as WV Living). At the time of writing this report, our work is subject to finalisation but our audit work to date has not identified any issues in respect of these analytical procedures.

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 and a summary of any significant deficiencies identified during the year.

Issue	Technical commentary	Auditor view
<p data-bbox="114 533 501 560">IT control significant deficiencies</p> <p data-bbox="114 571 714 630">System administrators with unrestricted access to both development and production environments</p>	<p data-bbox="763 571 1420 715">The presence of system administrators with unrestricted access to both development and production environments poses a lack of segregation of duties which could compromise the integrity of the data/programs in the system.</p>	<p data-bbox="1458 571 2101 774">We have identified 14 users of Unit4 that have access to both the development and production environments of the system, creating a segregation of duties issue. This is because these separate areas within the system are used for different purposes, and users would have the ability to develop and then implement changes within the system without independent authorisation or approval.</p> <p data-bbox="1458 785 2101 928">As a result of this finding, our risk assessment rating of the Council's IT control environment has increased, which has led to a higher number of journals being tested within our response to the significant risk of management override of control.</p> <p data-bbox="1458 940 2101 967">A control recommendation has been raised in Appendix B.</p>

2. Financial statements - key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Other land and building valuations £574.5m</p>	<p>Other land and buildings comprises 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 are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council has engaged Wilks Head & Eve to complete the valuation of these assets as at 01 January 2023. The Council revalued £549.8m of its other land and building assets in 2022/23, representing 96% of total assets were revalued during 2022/23. The Council requires that the remaining assets are subject to a full, formal valuation on a five yearly cyclical basis.</p> <p>Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 01 January 2023 by obtaining an assessment from the Council's valuer which considers whether there has been any material movement in market value. Management's assessment of the assets revalued at 01 January 2023 identified a significant increase in the value of assets measured at DRC, which resulted in the Council's valuer providing an updated valuation of these assets as at 31 March 2023. This updated valuation was included in the draft financial statements. Management's assessment did not identify any material movements in the value of EUV assets revalued at 01 January 2023 or non-valued assets. We are currently in the process of reviewing the Council's assessments in this area.</p> <p>The total year end valuation of other land and buildings was £574.5m, a net increase of £63.6m from 2021/22 (£510.9m).</p>	<p>Work in this area is ongoing but to date we have:</p> <ul style="list-style-type: none"> deepened our risk assessment procedures performed including understanding processes and controls around the identification and determination of the estimate; not identified any issues with the completeness and accuracy of the underlying information used to determine the estimate; no concerns over the competence, capabilities and objectivity of the valuation experts used by the Council; considered the movements in the valuations of individual assets and their consistency with national indices; engaged an auditor expert to assist in the challenge of management and management's expert valuer; reviewed management's assessment as to whether the assets not revalued as at 31 March 2023 are materially correct; not identified any material errors within the disclosures in the financial statements; and considered management bias in determining the estimate and evaluated evidence that might contradict management's assessment. <p>From our detailed work on the valuations of other land and buildings assets, we have identified one asset where better build cost information has been published since the valuation took place which has resulted in an overstatement of the asset's value in the 2022/23 financial statements. This misstatement is included in Appendix D.</p>	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
Investment property valuations £27.1m	<p>The Council has engaged Wilks Head & Eve to complete the valuation of properties as at 01 January 2023. All assets were revalued during 2022/23.</p> <p>Investment properties are measured at fair value. Fair values have been determined by multiplying the estimated net income of the properties by an appropriate investment yield or by reference to the value of similar assets.</p> <p>The total year end valuation of investment property was £27.1m, a net increase of £2.8m from 2021/22 (£24.3m).</p>	<p>Work in this area is ongoing but to date we have:</p> <ul style="list-style-type: none"> deepened our risk assessment procedures performed including understanding processes and controls around the identification and determination of the estimate; not identified any issues with the completeness and accuracy of the underlying information used to determine the estimate; no concerns over the competence, capabilities and objectivity of the valuation experts used by the Council; considered the movements in the valuations of individual assets and their consistency with national indices; engaged an auditor expert to assist in the challenge of management and management's expert valuer; reviewed management's assessment as to whether the assets not revalued as at 31 March 2023 are materially correct; not identified any material errors within the disclosures in the financial statements; and considered management bias in determining the estimate and evaluated evidence that might contradict management's assessment. <p>We have not identified any issues from our work to date.</p>	TBC

Assessment

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2. Financial statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Council dwellings valuations £953.3m	<p>The Council owns more than 21,000 dwellings and is required to revalue these properties in accordance with national 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 Council has engaged Jones Lang LaSalle (JLL) to complete the valuation of these properties.</p> <p>The year end valuation of council dwellings was £953.3m, a net increase of £67.5m from 2021/22 (£885.8m).</p>	<p>Work in this area is ongoing but to date we have:</p> <ul style="list-style-type: none"> • deepened our risk assessment procedures performed including understanding processes and controls around the identification and determination of the estimate; • not identified any issues with the completeness and accuracy of the underlying information used to determine the estimate; • no concerns over the competence, capabilities and objectivity of the valuation experts used by the Council; • considered the movements in the valuations of individual assets and their consistency with national indices; • engaged an auditor expert to assist in the challenge of management and management's expert valuer; • not identified any material errors within the disclosures in the financial statements; and • considered management bias in determining the estimate and evaluated evidence that might contradict management's assessment. <p>We have not identified any issues from our work to date.</p>	TBC

Page 18

Assessment

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2. Financial statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
<p>Net pension liability valuation</p> <p>£73.5m</p>	<p>The Council's net pension liability at 31 March 2023 is £73.5m (PY £579.6m) 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 this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation of the West Midlands Pension Fund was completed for 31 March 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £550.6m net actuarial gain during 2022/23.</p>	<ul style="list-style-type: none"> We have no concerns from our assessment of management's expert. We have no concerns from our assessment of the approach taken by the actuary. We have used PwC as auditor's expert to assess the actuary and the assumptions made by the actuary – see table below for the comparison made. No issues were noted from our work to date regarding 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. From our work to date, we have confirmed that the decrease in the estimate is reasonable. The disclosure of the estimate in the financial statements is considered adequate following additional narrative being added that clarifies the nature of the group and Council net pension positions. 	TBC																								
		<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>4.75%</td> <td>4.70% - 4.85%</td> <td>● Appropriate</td> </tr> <tr> <td>Pension increase rate</td> <td>2.95%</td> <td>2.95% - 3.00%</td> <td>● Appropriate</td> </tr> <tr> <td>Salary growth</td> <td>3.95%</td> <td>3.45% - 5.45%</td> <td>● Appropriate</td> </tr> <tr> <td>Life expectancy Males currently aged 45 / 65</td> <td>45: 21.6 years 65: 20.7 years</td> <td>N/A</td> <td>● Appropriate</td> </tr> <tr> <td>Life expectancy Females currently aged 45 / 65</td> <td>45: 25.1 years 65: 23.5 years</td> <td>N/A</td> <td>● Appropriate</td> </tr> </tbody> </table>	Assumption	Actuary value	PwC range	Assessment	Discount rate	4.75%	4.70% - 4.85%	● Appropriate	Pension increase rate	2.95%	2.95% - 3.00%	● Appropriate	Salary growth	3.95%	3.45% - 5.45%	● Appropriate	Life expectancy Males currently aged 45 / 65	45: 21.6 years 65: 20.7 years	N/A	● Appropriate	Life expectancy Females currently aged 45 / 65	45: 25.1 years 65: 23.5 years	N/A	● Appropriate	
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		<p>Note that PwC has not provided ranges for the mortality assumptions of Hymans Robertson as the actuary uses individual employer-level life expectancies. PwC has confirmed that the methodology used is reasonable.</p>																									

Assessment

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2. Financial statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Net pension liability valuation</p> <p>£73.5m</p> <p>(continued)</p>	<p>For the group accounts, the Council consolidates the net pension assets/liabilities of its subsidiaries, Wolverhampton Homes Limited and City of Wolverhampton Housing Company Limited. At 31 March 2023, both of the Council's consolidated subsidiaries were in a net pension surplus position (£38.1m for Wolverhampton Homes Limited and £0.1m for City of Wolverhampton Housing Company Limited).</p> <p>IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the Balance Sheet and whether any additional liabilities are required in respect of onerous funding commitments.</p> <p>IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan'.</p> <p>Following the conclusion of management's IFRIC 14 assessment, the Council has recognised a nil net pension asset for its subsidiaries in the consolidated group Balance Sheet.</p>	<p>We identified the net pension asset of Wolverhampton Homes Limited as a significant risk for the Group given the size of the balances involved (£212.6m gross assets and £174.5m gross liabilities at 31 March 2023) and the associated complex accounting treatment.</p> <p>We have not yet reviewed the work of the component auditor on the Company's gross pension assets and liabilities.</p> <p>An unqualified audit opinion of Wolverhampton Homes Limited was issued by Grant Thornton UK LLP on 18 December 2023. No significant issues were identified.</p> <p>The balances relating to City of Wolverhampton Housing Company Limited are trivial.</p>	TBC

Assessment

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2. Financial statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment in BAHL measured at fair value £27.2m	<p>Solihull MBC acts as the lead authority on behalf of the West Midlands councils, and commissions an external management expert to provide a valuation for the shares of Birmingham Airport Holdings Limited. The valuation uses an earnings-based approach, where the earnings multiples are based on an average of the lower-quartile earnings and transaction multiples for the industry, in this case, airports.</p> <p>Management of City of Wolverhampton Council uses this valuation by applying the Council's percentage of share ownership against the total valuation to arrive at the fair value of the Council's shareholding to include in the financial statements.</p>	We have written to the external auditor of Solihull MBC (the lead authority in relation to BAHL which acts on behalf of the West Midlands councils) to gain assurance over the valuation of BAHL. We have reviewed the response alongside the work performed and are satisfied with the conclusions reached.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious







Assessment

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2. Financial statements - information technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas. See page 13 for the findings that led to this assessment. A separate, more detailed report containing our scope, findings, and recommendations consistent with the ratings as set out below has already been issued to management.

ITGC control area rating

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
			Security management	Technology acquisition, development and maintenance	Technology infrastructure		
Unit4 ERP	Detailed ITGC assessment (design effectiveness only)					Management override of controls	Enhanced procedures incorporated into our journals testing to address the segregation of duties issue identified.
Active Directory	Detailed ITGC assessment (design effectiveness only)			Not in scope	Not in scope	Management override of controls	None required

Assessment

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

2. Financial statements - other communication requirements

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

Page 23

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 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 will be requested from the Council, including specific representations in respect of the group, a draft of which is set out at Appendix G.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking and treasury partners. This permission was granted and the requests were sent. All except one of these requests were returned with positive confirmation. One response is outstanding and we will look to perform alternative procedures on this balance should the third party confirmation remain outstanding.
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 in the financial statements. However, we did identify several minor typographical and disclosure issues that have been adjusted for in the financial statements – see Appendix D.
Audit evidence and explanations	All information and explanations requested from management were provided.

2. Financial statements - other communication requirements



Our responsibility

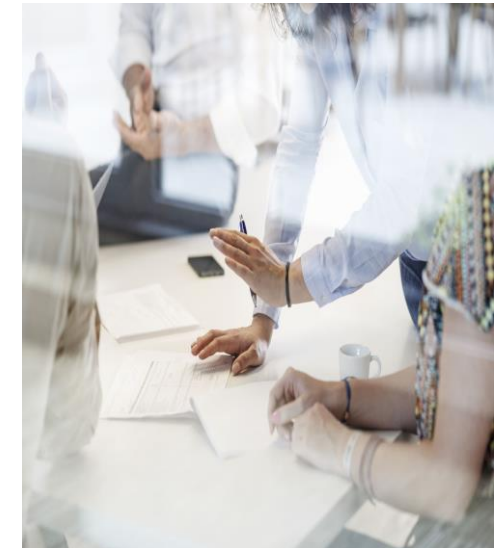
As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability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

Page 24

Issue	Commentary
Going concern	<p>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.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> 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. <p>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:</p> <ul style="list-style-type: none"> 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. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> 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
Other information	<p>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.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix H.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • 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. <p>We have nothing to report on these matters.</p>



2. Financial statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>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.</p> <p>No work is required as the Council does not exceed the threshold specified by the NAO. We will issue our Assurance Statement when we provide our opinion on the accounts.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2022/23 audit of City of Wolverhampton Council and its group in the audit report, as detailed in Appendix H.</p>

3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code requires 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

The NAO sets an expectation that Auditor's Annual Reports for local authorities should be issued by 30 September each year. Where an AAR will not be issued by this date, the auditor is required to inform the local authority in a letter communicating the reasons for the delay. An audit letter explaining the reasons for the delay was sent to the Chair of the Audit and Risk Committee on 28 September. We are issuing our draft Auditor's Annual Report at the Audit and Risk Committee on 22 January, which 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 have not identified any risks of significant weakness but have raised a number of recommendations for improvement.

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 and consider that an objective reasonable and informed third party would take the same view. 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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we 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 E.

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 [Grant Thornton International Transparency report 2023](#).

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 non-audit services were identified which were charged from the beginning of the financial year to January 2024, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £ 2021-22	Fees £ 2022-23	Threats identified	Safeguards
Audit related				
Certification of Housing Benefits Subsidy Claim	19,000	20,750	Self-interest (because this is a recurring fee)	The level of these recurring fees taken on their own is not considered a significant threat to independence as the fees for these pieces of work in comparison to the total fee for the audit of £218,673 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, they are fixed fees and there is no contingent element to them. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers Pensions EOYC	7,500	10,000	Self-review (because GT provides audit services)	To mitigate against the self-review threat: the timing of certification work is done after the audit has completed; the immateriality of the amounts involved to our opinion; the unlikelihood of material errors arising; and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Pooling of Housing Capital Receipts	7,500	10,000		

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

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton UK LLP	We are not aware of any relationships between Grant Thornton UK LLP and the Council or group that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or group.
Employment of Grant Thornton UK LLP staff	We are not aware of any former Grant Thornton UK LLP partners or staff being employed, or holding discussions in respect of employment, by the Council or group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton UK LLP and the Council or group.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member, senior management or staff of the Council or group.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – audit of financial statements
- C. Follow up of prior year recommendations
- D. Audit adjustments
- E. Fees and non-audit services
- F. Auditing developments
- G. Management Letter of Representation
- H. Audit opinion

Page 32

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action plan – audit of financial statements

We have identified 2 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 2023/24 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.

Controls

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

Assessment	Issue and risk	Recommendations
Low	<p><u>Bank reconciliations – aged reconciling items</u></p> <p>The Council's bank reconciliations contain several reconciling items that have been included in the bank reconciliations for several months, and in some cases, years.</p> <p>There is a risk that this could prevent the control from operating effectively, where repeated outdated information is included and could lead to a misstatement in the Council's cash balance in the accounts.</p>	<p>The Council should review the older reconciling items and consider whether these items should be written off.</p> <p>Management response</p> <p>The normal annual process would be to review all unmatched items and see where enquiries have been exhausted and recommend a move to write-off codes. The instructions approved for this period were to limit the movement of unmatched items to £1,000, which was adhered to. Going forward, if approval is given by the s151 officer or deputy s151 officer, all values with queries exhausted will be moved to write off codes. These can always be written back on.</p>
High	<p><u>IT significant deficiency</u></p> <p>We have identified 14 users of Unit4 that have access to both the development and production environments of the system, creating a segregation of duties issue.</p> <p>There is a risk that these users could develop and then implement changes within the system without independent authorisation or approval.</p>	<p>Access should be based on the principle of least privilege and commensurate with job responsibilities. Management should define segregation of duty policies and processes, and ensure that there is an understanding of roles, privileges assigned to those roles, and where incompatible duties exist. System administrators should have access only to the environment required for their specific roles and responsibilities.</p> <p>Management response</p> <p>Although we are aware that this can be seen as a risk, the reality is that staff need to have full access to both test and live environments for different reasons. In the production environment this role is required in order to carry out day to day ongoing support and maintenance tasks. In our development environment we need full system wide access to be able to fully test any new development work across a range of different modules.</p> <p>We have mitigated any risks associated with the above with our internal Request For Change (RFC) process, which involves all request for change being validated and approved by an independent 'Change Advisory Board' CAB, which consists of multi-disciplined senior members of Digital & IT team.</p> <p>For information, domain admin accounts are monitored using manage engine AD-Audit. Scheduled reports highlighting the admin accounts are available and are reviewed on a regular basis. Periodical account reviews are in place to ensure correct resources have the correct level of system access.</p> <p>Going forward, Digital & IT are engaged with the ERP provider, Unit4, to move to a managed SaaS solution which will have three formally managed environments, one production and two for development. The current on premise practices mirror what will soon become the formal SaaS process in that all developments are carried out by a system specialist after an approved RFC review and then rigorously tested by, either another support specialist and/or the end user prior to promotion to the production environment, which will be subject to approval by CAB.</p>

C. Follow up of prior year recommendations

We identified the following issues in the audit of City of Wolverhampton Council's 2021/22 financial statements, which resulted in 3 recommendations being reported in our 2021/22 Audit Findings report, alongside 1 previously reported recommendation.

We have followed up on the implementation of our recommendations below.

Assessment

- ✓ Action completed
- WIP Work in progress
- X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Recommendation raised prior to 2021/22		
TBC	<p>Valuation process</p> <p>We previously recommended that officers enhance scrutiny of the year-end asset valuations as well as reviewing the in-year processes for disposals to ensure that any disposals made are notified to Finance on a timely basis and actioned accordingly.</p>	<p>As part of the 2021/22 audit, we recognised that the Council had introduced additional challenge and scrutiny to improve the controls for the valuations process, however we identified several errors relating to valuations.</p> <p>Our work relating to the valuations included in the 2022/23 financial statements is not yet finalised.</p>
Recommendations raised in 2021/22		
TBC	<p>Revaluation Reserve</p> <p>The Council's working paper for the revaluation reserve showed a closing balance that was £3.5m higher than the revaluation reserve closing balance on the Balance Sheet.</p> <p>Management should review the revaluation reserve to identify the reason for the difference and take corrective action.</p>	<p>TBC – Our work in this area is ongoing.</p>
WIP	<p>Council Dwellings</p> <p>The Council hold a significant number of assets as “non-beacon” properties within the council dwellings asset balance, which are valued via an uplift based on the valuation movement of assets which are valued using the beacon methodology.</p> <p>The Council should consider whether any of these assets could be assigned to an archetype and valued using the beacon methodology.</p>	<p>The Council instructed its external valuer to undertake a review of council dwellings not assigned to an archetype as part of the valuation process for 2022/23. This significantly reduced the number of assets valued outside of the beacon methodology, however there are still 122 dwellings not assigned to archetypes as at 31 March 2023.</p>
TBC	<p>Journal types not authorised</p> <p>Certain journal types can be posted to the ledger system by the same user that is inputting the journal, without prior authorisation from a different user.</p> <p>Management should implement controls to ensure these journal types are authorised, or implement a compensating control to periodically review these journals.</p>	<p>TBC – Our work in this area is ongoing.</p>

D. 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 adjusted misstatements

There were 2 adjustments made to the draft financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Impact on general fund £'000
Adjustment to Corporate Budgets line within CIES				
A routine expenditure adjustment to the Corporate Budgets line within the Comprehensive Income and Expenditure Statement had not been made in the 2022/23 draft financial statements. To correct this, the gross expenditure figure has been debited and the gross income figure has been credited, resulting in a nil impact to the net expenditure on the Corporate Budgets line.				
DR CIES Corporate Budgets gross expenditure	19,482			
CR CIES Corporate Budgets gross income	(19,482)	Nil	Nil	Nil
Vehicle assets with a nil net book value				
Management has identified a number of fully depreciated vehicle assets recorded on the Balance Sheet that are no longer in use by the Council. While the Balance Sheet is not affected by these assets, management has derecognised the gross book value and accumulated depreciation of these assets from the non-current assets note.				
DR PPE accumulated depreciation		15,874		
CR PPE gross book value	Nil	(15,874)	Nil	Nil
Overall impact	Nil	Nil	Nil	Nil

D. 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	Misclassification or change identified	Adjusted?
Note 1D Expenditure and income analysed by nature	An adjustment of £15.5m was required to remove income from the 'government grants and contributions' line where the Council is acting as agent and therefore the income is not included in the Council's CIES. This in turn affected the 'fees and charges and other service income' line in the same note, as this is a balancing figure. There was no impact on the income recognised in the CIES as this was a disclosure only issue.	✓
Note 1D Expenditure and income analysed by nature	An adjustment of £1.1m was required to remove expenditure from the 'employee benefits expenses' line due to a formulae error in the underlying working paper that supports this note. This in turn affected the 'other service expenses' line in the same note, as this is a balancing figure. There was no impact on the expenditure recognised in the CIES as this was a disclosure only issue.	✓
Note 8 Non-current assets	The disclosure of additions on council dwellings that were still under construction presented in this note was incorrect. An adjustment has been made to relocate these movements, resulting in a decrease in council dwellings additions of £11m and increase of assets under construction additions of £11m, and corresponding removals of £11m council dwellings other changes and £11m assets under construction other changes. This affects the movements in the note 8 disclosure only and does not affect the closing balance of non-current assets.	✓
Note 8 Non-current assets	The Civic Hall was transferred out of Assets Under Construction (AUC) and into Other Land and Buildings (OLB) during the year. The asset was revalued to current value at depreciated replacement cost (DRC) while still within AUC, and then transferred into OLB. The correct accounting treatment would be to transfer the existing carrying amount from AUC into OLB and then revalue to current value at depreciated replacement cost. This issue arose due to timing differences between the valuation occurring and the asset becoming ready for use. This affects the movements in the note 8 disclosure only and does not affect the closing balances of non-current assets or the revaluation reserve.	✓
Note 9 Employee pensions	Additional narrative has been added to this note to clarify management's accounting treatment of the net pension surpluses of the consolidated subsidiaries and how the group net pension liability position has been determined.	✓
Housing Revenue Account Statements	Comparative figures within the Movement on the Housing Revenue Account Statement and Note H8 for capital receipts have been amended to agree to the prior year signed financial statements.	✓
Throughout	A number of typographical errors were identified throughout the draft financial statements.	✓

D. Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 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	Balance Sheet £'000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Error identified in the value of gross pension assets					Immaterial
The work performed by the pension fund auditor identified a net understatement in the value of gross pension assets at the pension fund, and when the Council's share of assets percentage is applied to this, it results in a non-trivial misstatement to the net pension liability on the Balance Sheets of both the Council and the group.					
DR Net pension liability		749		Nil	
CR Unusable reserves – pension reserve (through OCI in the CIES)	(749)		(749)		
Error identified in the valuation of an asset within OLB					Immaterial
To determine the valuation for one asset measured at depreciated replacement cost (DRC) within the other land and buildings balance, the Council's valuer used the BCIS build cost as at March 2023, which was the best information available at the time of the valuation exercise. Subsequently this BCIS build cost was adjusted to take into account national factors at the time and this meant that the build cost used by the valuer at the time of valuation was superseded. Using the updated build cost results in a valuation for this asset that is £3.3m lower than that included in the financial statements.					
DR Unusable reserves – revaluation reserve (through OCI in the CIES)	3,355		3,355	Nil	
CR PPE other land and buildings		(3,355)			
Overall impact	2,606	(2,606)	2,606	Nil	

D. Audit adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements. When assessing unadjusted misstatements for 2022/23 we are required to consider whether unadjusted misstatements in the previous year could, in combination, result in a material unadjusted misstatement in the 2022/23 financial statements. As our audit work on the 2022/23 draft financial statements is ongoing, we cannot yet conclude our consideration of the cumulative impact of unadjusted misstatements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
<p>Investment property</p> <p>We determined the impact of potential movements in the value of assets that had not been valued as at 31 March 2022 as an understatement of the investment property balance at 31 March 2022 of £1,498k. Had this been corrected in the 2021/22 financial statements, the gain on investment property recognised in the 2022/23 financial statements would be reduced by £1,498k.</p>	1,498	Nil	1,498	Nil	Immaterial
<p>Creditors</p> <p>We identified 6 errors in our 2021/22 creditors testing totalling £55k. This extrapolated into a projected overstatement of the creditors balance at 31 March 2022 of £2,614k. Had this been corrected in the 2021/22 financial statements, the expenditure recognised in the 2022/23 financial statements would be increased by £2,614k.</p>	2,614	Nil	2,614	Nil	Immaterial
<p>Property, plant and equipment</p> <p>We determined the impact of potential movements in the value of assets that had not been valued as at 31 March 2022 as an understatement of the PPE balance at 31 March 2022 of £3,186k. Had this been corrected in the 2021/22 financial statements, the revaluation gain on PPE recognised in the 2022/23 financial statements would be reduced by £3,186k.</p>	3,186	Nil	3,186	Nil	Immaterial
<p>Council dwellings</p> <p>We identified 21 void properties included in the valuation which should not have been valued as operational, resulting in an overstatement of the council dwellings balance at 31 March 2022 of £1,000k. Had this been corrected in the 2021/22 financial statements, the revaluation gain on council dwellings recognised in the 2022/23 financial statements would be increased by £1,000k.</p>	(1,000)	Nil	(1,000)	Nil	Immaterial
Overall impact	6,298	Nil	6,298	Nil	

E. Fees and non-audit services

The following is our proposed audit fee for information, of which the proposed Council audit fee will be submitted to PSAA for formal determination following completion of the audit.

Audit fee for 2022/23	Proposed fee
PSAA scale fee for 2022/23	£161,923
Audit of Group Accounts (not included in the Scale Fee)	£3,750
Enhanced procedures as a result of lower materiality	£3,750
PPE Valuation - appointment of auditor's expert	£5,000
Additional work on Value for Money (VfM) under new NAO Code	£20,000
Impact of ISA 540	£6,000
Enhanced procedures on journals in response to regulatory requirements	£3,000
Additional procedures to address other local risk factors – hybrid remote and on-site working	£5,000
Infrastructure	£2,500
Increased reviews in response to regulatory requirements	£1,500
Enhanced audit procedures for Payroll – change of circumstances	£500
Enhanced audit procedures for Collection Fund – reliefs testing	£750
Increased audit requirements of revised ISAs 315 and 240	£5,000
Total proposed Council audit fee 2022/23 (excluding VAT)	£218,673
Audit of Wolverhampton Homes Limited	£36,900
Audit of City of Wolverhampton Housing Company Limited (trading as WV Living)	£28,500
Total proposed audit fees for 2022/23 (excluding VAT)	£284,073

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee £	Final fee £
Audit Related Services		
Certification of Housing Benefit Subsidy Claim 22-23	20,750	TBC
Certification of Teachers Pensions EOYC 22-23	10,000	TBC
Certification of Pooling of Housing Capital Receipts 22-23	10,000	TBC
Total non-audit fees (excluding VAT)	£40,750	£TBC

Our work on the above non-audit services is not yet complete, therefore we are not in a position to confirm final fees.

The audit fees for the Council of £218,673 and its two subsidiaries of £36,900 and £28,500 reconcile to the rounded fees in note 2G of the financial statements.

The non-audit fees do not agree directly to note 2G – see reconciliation below.

- non-audit fees per financial statements £0.038m
 - certification of Housing Benefit Subsidy Claim £20,750 (quoted fee)
 - certification of Teachers Pensions EOYC £10,000 (quoted fee)
 - certification of Pooling of Housing Capital Receipts £7,500 (estimated fee)
- increased in quoted fee for Pooling of Housing Capital Receipts £2,500
- total non-audit fees per above £40,750

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the Council and group, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence.

F. Auditing developments

Revised ISAs

There are changes to the following ISAs (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

These impact audits of financial statements for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

This impacts audits of financial statements for periods commencing on or after 15 December 2022.

A summary of the impact of the key changes on various aspects of the audit is included below.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures the identification and extent of work effort needed for indirect and direct controls in the system of internal control the controls for which design and implementation needs to be assess and how that impacts sampling the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> increased emphasis on the exercise of professional judgement and professional scepticism an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence increased guidance on management and auditor bias additional focus on the authenticity of information used as audit evidence a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> clarification of the requirements relating to understanding fraud risk factors additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Management Letter of Representation

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

Date

Dear Grant Thornton UK LLP

City of Wolverhampton Council Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of City of Wolverhampton Council and its subsidiary undertakings, Wolverhampton Homes Limited and City of Wolverhampton Housing Company Limited for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the group and Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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

We have fulfilled our responsibilities for the preparation of the group and Council'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 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council 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.

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

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of other land and buildings, council dwellings, investment property, the net pension liability, and the investment in Birmingham Airport Holdings Limited. 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.

We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

Except as disclosed in the group and Council financial statements:

- there are no unrecorded liabilities, actual or contingent
- none of the assets of the group and Council have been assigned, pledged or mortgaged
- there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

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.

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.

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

We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached appendix. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards. We have considered whether the Council is required to reflect a liability in respect of equal pay claims within its financial statements. We confirm that we are satisfied that no liability needs to be recognised.

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

We have updated our going concern assessment. We continue to believe that the group and Council'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:

- the nature of the group and Council means that, notwithstanding any intention to cease the group and Council 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
- the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
- the group and Council'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 group and Council's ability to continue as a going concern need to be made in the financial statements.

G. Management Letter of Representation

We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

We are not aware of a material issue in relation to reinforced autoclaved aerated concrete (RAAC) being used within the assets of the Council.

Information Provided

We have provided you with:

- a. access to all information of which we are aware that is relevant to the preparation of the group and Council's 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 Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.

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

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

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.

We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, 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.

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.

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.

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

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

Annual Governance Statement

We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Risk Committee at its meeting on 22 January 2024.

Yours faithfully

Name.....

Position.....

Date.....

Signed on behalf of the Council

H. Audit opinion

Our proposed audit opinion is included below. We anticipate we will provide the group and Council with an unmodified audit report.

Independent auditor's report to the members of City of Wolverhampton Council

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of City of Wolverhampton Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement (Council), the Comprehensive Income and Expenditure Statement (Group), the Balance Sheet (Council and Group), the Movement in Reserves Statement (Council), the Movement in Reserves Statement (Group), the Cash Flow Statement (Council and Group), the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2023 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

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

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

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon, and our auditor's report on the pension fund financial statements. The Director of Finance is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

H. Audit opinion

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority and the Director of Finance

As explained more fully in the Statement of Responsibilities (set out on page x), the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Local Government Act 1972, the Local Government and Housing Act 1989, and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and the Local Government Finance Act 2012).

We enquired of management and the Audit and Risk Committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered the Authority's financial performance for the year and potential management bias in determining accounting estimates and judgements for the valuation of land and buildings, council dwellings, investment property, and the net pension liability.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on significant journals at the end of the financial year which impacted on the Authority's financial performance and material manual journals posted at year end,

H. Audit opinion

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, council dwellings, investment property, and net pension liability valuations, and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, council dwellings, investment property, and the net pension liability. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team and component auditor included consideration of the engagement team's and component auditor's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector in which the group and Authority operates
- understanding of the legal and regulatory requirements specific to the Authority and group including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA/LASAAC and SOLACE
 - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

For components at which audit procedures were performed, we requested component auditors report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

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

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in respect of the above matter.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

H. Audit opinion

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of City of Wolverhampton Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Smith, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Date

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