

Time 2.00 pm **Public Meeting?** YES **Type of meeting** Regulatory

Venue Council Chamber

Membership

Chair Cllr Alan Butt (Lab)

Vice-chair Cllr Jonathan Yardley (Con)

Labour

Cllr Mary Bateman
Cllr Philip Bateman MBE
Cllr Craig Collingswood
Cllr Clare Simm

Independent Member

Mr Mike Ager
Mr John Humphries

Conservative

Cllr Andrew McNeil

Quorum for this meeting is two Councillors.

Information for the Public

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Some items are discussed in private because of their confidential or commercial nature. These reports are not available to the public.

Agenda

Part 1 – items open to the press and public

Item No. *Title*

MEETING BUSINESS ITEMS

- 1 **Apologies for absence**
- 2 **Declaration of interests**
- 3 **Minutes of the previous meetings** (Pages 3 - 10)
[For approval]
- 4 **Matters arising**
[To consider any matters arising from the minutes]

DECISION ITEMS

- 5 **Accounting Estimates for the West Midlands Pension Fund** (Pages 11 - 12)
[To receive a presentation on accounting estimates for the West Midlands Pension Fund.]
- 6 **Assessment of Going Concern Status** (Pages 13 - 22)
[To receive an update on the assessment of going concern status.]
- 7 **Review of Compliance with the CIPFA Financial Management Code** (Pages 23 - 50)
[To receive an update on the review of compliance with CIPFA financial management code.]
- 8 **Annual Governance Statement** (Pages 51 - 68)
[To receive the annual governance statement.]
- 9 **Grant Thornton 2019 - 2020 Annual Audit Letter** (Pages 69 - 100)
[To receive an update from the external auditors, Grant Thornton.]
- 10 **Grant Thornton 2020 - 2021 Audit Plan** (Pages 101 - 132)
[To receive an update from the external auditors, Grant Thornton.]

Attendance

Members of the Audit and Risk Committee

Cllr Alan Butt (Chair)
Cllr Jonathan Yardley (Vice-Chair)
Cllr Mary Bateman
Cllr Philip Bateman MBE
Cllr Craig Collingswood
Cllr Roger Lawrence
Cllr Barbara McGarrity QN
Cllr Lynne Moran
Mike Ager
John Humphries

Employees

Emma Bland	Finance Business Partner
Ian Cotterill	Audit Business Partner
Peter Farrow	Head of Audit
Fabrica Hastings	Democratic Services Assistant
Alison Hinds	Deputy Director – Social Care
Jaswinder Kaur	Democratic Services Manager
Claire Nye	Director of Finance
David Pattison	Director of Governance
Hayley Reid	Senior Auditor (Risk)
Alison Shannon	Chief Accountant
Kirsty Tuffin	Democratic Service Officer
Mark Wilkes	Audit Business Partner

In attendance

Fiona Hollingworth	JLL
Mathew Kitson	Bruton Knowles
Minesh Parmar	JLL
Jon Roberts	Grant Thornton
Martin Wilson	Bruton Knowles

Part 1 – items open to the press and public

Item No. *Title*

- 1 Apologies for absence**
There were no apologies for absence.
- 2 Declaration of interests**
Councillor Lynne Moran declared an interest as a member of the WV Homes Board of Trustees.

3 **Minutes of previous meetings**

That the minutes of the previous meetings held on 26 November 2020 and 7 December 2020 be approved as a correct record.

4 **Matters arising**

Following a query as per item 3, resolution 3 of the minutes of the previous meeting held on 7 December 2020, it was confirmed that Alison Hinds, Deputy Director for Social Care would be in attendance at the meeting to discuss the safeguarding of children.

Please note: it was agreed to move item 9, Covid-19 Risk Register and Strategic Risk Register, for discussion following item 5, External Audit Progress Report and Update.

5 **External Audit Progress Report and Update**

Jon Roberts, External Auditor – Grant Thornton, presented the report on the External Audit Progress Report and advised that he would be replacing Mark Stocks as the Council's external Auditor lead.

The Committee were advised that work had been underway to complete the Government consolidation packs that would allow Grant Thornton to grant certification of the Councils Audit 2010-2020. One of the main changes highlighted had been a revised approach to value for money work for 2020-2021 and the revised auditing standards. The value for money work included three 3 areas of focus for auditors to include in their analysis:

1. Improving economy, efficiency and effectiveness,
2. Financial sustainability,
3. Governance.

A detailed fee analysis would be brought to the next Committee meeting. Following concerns on the increased fees, Jon Roberts reassured Members that the changes would be more demanding and the increase in fees would be used to cover increased resources and would not be profit led.

Resolved:

1. That the Progress Report and Update provided by Grant Thornton, be noted.

6 **External Audit - Informing the Audit Risk Assessment 2020-2021**

Jon Roberts, External Auditor – Grant Thornton, presented the report on the External Audit - Informing the Audit Risk Assessment 2020-2021.

The Committee were advised that Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Risk Committee and the inquires outlined in appendix 1, fall under these auditing standards. Following questions on the number of consultants and use of barristers, Members were reassured that external barristers are used for childcare court cases, litigation and regeneration projects. It was agreed that further information on this, trends on using them and the costs incurred for using external consultants, would be provided.

Resolved:

1. That the report from the external auditors, Grant Thornton, be considered.

2. That it be agreed that further information on the use of external consultants, trends of use and the costs incurred would be brought to a future Committee meeting.

7 **Accounting Estimates**

Emma Bland, Finance Business Partner, provided a presentation on key accounting estimates that would be included in Council's financial statements this year.

The Committee were advised that accounting policies and accounting estimates were used to ensure that the accounting data within financial statements was valid data. Accounting policies are standard rules and procedures that must be used by the Council and accounting estimates are used when these clear-cut standards are not available. The Director of Pensions would be in attendance at the next Committee meeting to discuss the defined benefit pension liability. The Committee were advised that the audit standard ISA 540 had been revised and had increased focus from regulators on estimates the Council makes and required an understanding of the internal control on the accounting estimates.

Martin Wilson and Mathew Kitson, representatives from Bruton Knowles, provided a presentation on asset valuations used for the Council. The Committee were advised that Bruton Knowles had conducted asset valuations for the Council's commercial portfolio. The four types of assets outlined were:

1. Operational non-specialised
2. Operational specialised
3. Non-operational non-specialised
4. Non-operations specialised.

Examples of operational assets included; leisure centres, community centres, museums and the civic centre. The examples outlined for non-operational assets included; surplus assets, assets held for sale and investment properties. The asset type would dictate what method of valuation would be used and the four methods included:

1. Comparable method
2. Investment
3. Income/profits
4. Depreciated replacement cost (DRC).

Fiona Hollingworth and Minesh Parmar, representatives from JLL, provided a presentation on HRA Valuation Services that outlined the basic principles, the framework and methodology used. The Committee were advised that the market value of a property would be used in all valuations conducted and for social housing, existing use value would be used. The two frameworks outlined were the 'stock valuation for resource accounting guidance for values 2016', published by MHCLG, and the 'RICS Valuation – Global Standards 2017', published by the Royal Institution of Chartered Surveyors.

The Committee were advised that the beacon approach was used by JLL for up to 98% of the Councils stock, which divides the stock into asset groups and then categorises into different archetypes. The remaining 2% of the stock would be looked at individually. The following methods would also be used when assessing market values:

1. Land registry data
2. Bespoke online tools

3. Local experience and knowledge of the area
4. Understanding on local market dynamics and,
5. Phone calls with estate agents.

For all valuation advice provided a material uncertainty clause (MUC) would be incorporated, in line with the RICS guidance, and the steps to mitigate risks were outlined. It was agreed that the slides shared in the meeting be shared with Members of the Committee.

Resolved:

1. That the presentations provided by the Council and the Council's external valuers: Bruton Knowles and JLL be noted.
2. That it be agreed that the slides shared in the meeting be shared with Members of the Committee.

8 **Accounting Estimate Management Summary**

Jon Roberts, External Auditor – Grant Thornton, presented an update on the External Audit - Informing the Audit Risk Assessment 2020-2021.

The Committee were advised that to meet the requirements for the revised ISA 540 auditing regulations, the Council had responded to questions raised by Grant Thornton on their key estimates, as per appendix 1 of the report. It was highlighted that although, external professional companies were used to generate the Council property and pensions estimates, these were the biggest risk to the Council in the risk assessment for 2020-2021. To mitigate the risk, Grant Thornton advised the Committee that data would be an essential element in getting accurate estimates. Grant Thornton and their valuers would be used to challenge the Council and their valuations. Praise was given on good practice from the Council in inviting the Council's valuers to Committee.

Resolved:

1. That the report of the external auditors, Grant Thornton, be considered.

9 **Covid-19 Risk Register and Strategic Risk Register**

Hayley Reid, Senior Auditor (Risk), presented an update on the Strategic Risk Register and a Covid-19 Risk Register. The update detailed the risks faced by the Council as a result of the Covid-19 pandemic and, the latest summary of the Council's Strategic Risk Register as at Appendix 1 and 2.

The Committee were advised that 19 risks were included on the covid risk register, the following six of those were rated 'red':

1. Businesses closing
2. Reputation/loss of public confidence
3. Medium Term Budgetary pressure
4. Service providers – adults
5. Impact on on-going projects and programmes
6. Rise in unemployment

The Strategic Risk Register included 16 risks, that had one risk rated 'red':

1. Medium term financial strategy.

Following questions, David Pattison, Director of Governance, clarified that the delays as per Covid risk 17 (impact on on-going projects and programmes), had been

minimal and regular covid testing and health and safety measures were in place on work sites. It was agreed that an update on the impact of covid on key projects and the financial on the projects, be brought to a future Committee meeting.

Alison Hinds, Deputy Director for Social Care, reassured the Committee that the regular reports were received on all referrals made through MASH, the level of risk to children and the outcomes of these referrals. The Council worked with partners through the Wolverhampton Safeguarding Together Board that scrutinise the information on referrals. January saw an increase in referrals that were to be managed through the child protection policies. Individuals seeking help/guidance from external organisations had increased since lockdown, this was usually low level and often occurs before a formal referral would be made that would require investigating/police intervention.

Resolved:

1. That the Council's Covid-19 risk register which details the risks faced by the Council as a result of the Covid-19 pandemic, as at Appendix 1, be noted.
2. That the latest summary of the Council's Strategic Risk Register, as at Appendix 2, be noted.
3. That the verbal update on the Covid Risk 4 – Safeguarding Children from the Deputy Director for Social Care, be noted.
4. That it be agreed that details on the impact of covid on key projects and the financial cost of covid on the projects, be brought to a future Committee meeting.

10

Audit and Risk Committee - Terms of Reference

Peter Farrow, Head of Audit presented the report on the revised terms of reference for the Audit and Risk Committee that is review annually

The Committee were advised that ahead of the CIPFA review, the terms of reference had been updated to include accounting estimates as part of its financial section that would be beneficial to the Committee.

Resolved:

1. That the terms of reference for the Committee in line with recognised best practice, be approved.

11

Internal Audit Update

Peter Farrow, Head of Audit presented the report on the progress made against the 2020 - 2021 internal audit plan and provided information on recent work that had been completed.

The Committee were reminded that due to a significant amount of audit resources redeployed to focus on critical work surrounding the impact of covid-19, some audit reviews had been deferred and would be included in the next internal audit plan where appropriate.

The Committee were advised that the audit team were working with procurement following a review that saw concerns around the maintenance of procurement records, although reassurance was provided that no legislation had been breached. Recommendations for improvement had been agreed with John Thompson, Head of Procurement, and improvements were being put in place. A follow up review would be conducted in 2022.

Resolved:

1. That the contents of the latest internal audit update as at the end of quarter three, be noted.

12 **Internal Audit Plan 2021-2022**

Peter Farrow, Head of Audit presented the report on the Internal Audit Plan 2021-2022 that provided the Committee with a risk-based internal audit plan, incorporating a strategic statement for internal audit, and based upon an assessment of assurance needs.

The Committee were advised that a number of deferred audits from the previous 2020-2021 plan had been included in the 2021-2022 audit plan where appropriate.

Following questions on payment of grants, Peter Farrow reassured members that over 4,000 grants had been processed so far and tools had been used such as the Government recommended 'Spotlight' RAG rating tool and NFI to run background checks and validate data on those applying for the grants. Councillor Lynne Moran requested that the grants for Early Years be monitored.

Praise was given to Peter Farrow and the Team on the work they had conducted.

Resolved:

1. That the risk based internal audit plan for 2021-2022 be approved.

13 **CIPFA Audit Committee Update**

Peter Farrow, Head of Audit presented the report on the CIPFA Audit Committee that focused on the Head of Audit Opinion, the Redmond Review and a regular briefing on current issues.

The Committee were advised that the two issues highlighted in the update had been the Redmond Review, that Grant Thornton had already provided a detailed update on at the previous meeting, and the amount of work audit teams in public sectors had spent on their internal audit plans. Members were asked to contact Member Services if they wished to be booked onto any of the training programmes offered by CIPFA. It was agreed that confirmation on the budget position for training for Members be brought to the next Committee meeting.

Resolved:

1. That the contents of the latest CIPFA Audit Committee Update which has a focus on the Head of Audit Opinion, the Redmond Review and a regular briefing on current issues, be noted.
2. That it be agreed that confirmation on the budget available for training be brought to the next Committee meeting.

14 **Counter Fraud Update**

Mark Wilkes, Audit Business Partner presented the update report on current counter fraud activities undertaken by Audit Service since the last meeting.

The Committee were advised that work had been ongoing for the allocation of small business grants, discretionary grants and hospitality grants by Government to assist with the impact of the pandemic. Following post payment checks, 24

invoices had been raised against businesses, two of which had started their repayments to the Council. Debt recovery measures would be used on businesses where required. Details of any further action would be brought to Committee if required.

Resolved:

1. That the contents of the latest Audit Services Counter Fraud Update be noted.

15

Payment Transparency

Mark Wilkes, Audit Business Partner presented the report on the Council's current position with regards to the publication of all its expenditure.

The Committee were advised that no armchair auditor requests had been received in the last quarter. A query raised on payments for nurseries had identified that data had been added incorrectly but Committee were reassured that the data had been corrected.

Resolved:

1. That the Council's current position with regards to the publication of all its expenditure be noted.

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CITY OF WOLVERHAMPTON COUNCIL	Audit and Risk Committee 21 June 2021
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Report title	Accounting Estimates for the West Midlands Pension Fund	
Accountable director	Claire Nye, Director of Finance	
Originating service	Strategic Finance	
Accountable employee(s)	Emma Bland	Finance Business Partner
	Tel	01902 553928
	Email	emma.bland2@wolverhampton.gov.uk
Report to be/has been considered by	None	

Recommendations for noting:

The Audit and Risk Committee is asked to note:

1. The presentation provided by West Midlands Pension Fund on pension estimates.

1.0 Purpose

- 1.1 To inform on the key pensions accounting estimates that will be included in the Council's financial statements this year.

2.0 Background

- 2.1 International Auditing Standards place obligations on auditors to document their understanding of an entity and its environment, including the entity's internal control, in identifying and assessing the risks of material misstatement in the financial statements.
- 2.2 ISA (UK) 540 (Revised) Auditing Accounting Estimates and Related Disclosures (revised in December 2018) is effective for audits of financial statements for periods beginning on or after 15 December 2019; and requires auditors to understand a number of matters related to the Council's key accounting estimates.
- 2.3 To assist in meeting these requirements, the Council provided an overview of the key accounting estimates at the 8 March 2021 Committee and invited the Council's external valuers (Bruton Knowles and JLL) to discuss in more detail the estimates used to value the Council's assets.
- 2.4 On 8 March, the Committee was informed that a representative from West Midlands Pension Fund would be attending the 21 June Committee, to present on the pension estimates. Their presentation will be tabled on the day.

3.0 Financial implications

- 3.1 There are no specific financial implications arising from this report.

[EB/10062021/G]

4.0 Legal implications

- 4.1 There are no specific legal implications arising from this report.

[SZ/10062021/P]

5.0 Equalities implications

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

6.0 All other Implications

- 6.1 There are no other implications arising from this report.

7.0 Schedule of background papers

- 7.1 There are no relevant preceding reports.

8.0 Appendices

- 8.1 None

Report title	Assessment of Going Concern Status	
Accountable Director	Claire Nye, Director of Finance	
Originating service	Strategic Finance	
Accountable employee	Alison Shannon	Chief Accountant
	Tel	01902 554561
	Email	Alison.shannon@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board	13 May 2021

Recommendation for noting:

The Audit and Risk Committee is asked to note:

1. The assessment of Going Concern Status.

1.0 Purpose

1.1 This purpose of this report is to provide Audit and Risk Committee the Section 151 Officers assessment of the Council's Going Concern status.

2.0 Background

2.1 The concept of a 'going concern' statement assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Local Authority Code of Accounting Practice and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies.

2.2 Local authorities have to compile a Statement of Accounts in accordance with Code of Practice Local Authority Accounting for 2020-2021 as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code, the Council's Statement of Accounts is prepared assuming that the Council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available.

2.3 The main factors which underpin the going concern assessment are:

- The Council's current financial position
- The Council's projected financial position
- The Council's governance arrangements
- The regulatory and control environment applicable to the Council as a local authority

2.4 The pandemic has had a significantly distorted the budget and medium term financial strategy and there will be a 'covid cost' beyond the short – medium term. The Going Concern assessment therefore also considers the impact of the pandemic on the Council.

2.5 It is considered that, having regard to the Council's arrangements and such factors as highlighted in the Going Concern statement, that the Council remains a going concern.

2.6 The Council's assessment on its Going Concern is at Appendix 1.

3.0 Financial implications

3.1 There are no direct financial implications arising from this report. The Final Budget 2021-2022 and Medium Term Financial Strategy approved by Full Council on 3 March 2021 provided details of the budget position of the council over the medium term.

[AS/11062021/I]

4.0 Legal implications

- 4.1 Section 25 of the Local Government Act 2003 requires the authority's Section 151 Officer to comment on the robustness of budget estimates and the adequacy of reserves.
- 4.2 Section 114 (1) of the Local Government Finance Act 1988 places a duty on the Section 151 Officer to report certain matter to the authority.

[TC/11062021/B]

5.0 Equalities implications

- 5.1 There are no direct equalities implications arising from this report.

6.0 All other Implications

The implications of Covid-19 are detailed in Appendix 1.

7.0 Appendices

- 7.1 Appendix 1: Going Concern Statement

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Assessment of Going Concern Statement

Background

As with all principal local authorities, the Council is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2020-2021 (hereafter referred to as the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

In accordance with the Code the Council's Statement of Accounts is prepared assuming that the Council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its obligations in the normal course of business.

It is considered that, having regard to the Council's arrangements and such factors as highlighted in this document, that the Council remains a going concern.

The following statement has been prepared by Strategic Finance and the Director of Finance to present to Grant Thornton to support our conclusion.

The Council's current financial position (revenue)

On 4 March 2020, Council approved a net budget of £248.2 million for 2020-2021, without the use of general fund reserves. This budget included the delivery of budget reduction and income generation targets totalling £5.5 million.

This budget was set before Covid-19 was declared a global pandemic and the announcement of the first national lockdown, and at the time of reporting, the full impact of the pandemic on both the finances and operating environment remained unclear. The pandemic has significantly distorted the 2020-2021 budget and medium-term financial strategy.

By swiftly and decisively responding to the pandemic, the Council played a pivotal role in leading the city through an unprecedented national public health emergency. This included many vital, short-term policy initiatives to protect the city's most vulnerable residents - including support for care home residents and staff, support for the NHS response, support for city schools and young people and much needed help for struggling city businesses. In addition to these important short-term initiatives, some services had to be suspended in line with Government restrictions. As an understandable result, the Council's income streams were adversely affected from the loss of fees and charges. This included revenue normally gained from leisure centre membership and use, and from car parking charges. Responding to the pandemic, also meant that, in some instances, budget reduction targets were not delivered because resources that would have been focused on transformation programmes, were redirected to the Council's pandemic response priorities.

Government has awarded local authorities a number of one-off grants to help tackle the pandemic, including un-ringfenced general covid grants, compensation for loss of

sales, fees and charges income and specific grants to help contain the outbreak. The Council has carefully managed the use of these grants, considering evidence when drawing up a response to the pandemic to ensure that the right response is delivered at the right level to support residents and businesses. The Council reported in March 2021, that it was projected that the covid general grant would be sufficient to deal with the cost pressures in 2020-2021 and that to ensure that the Council could continue to deliver on our Relight priorities, that any efficiencies identified against the general covid grant for 2020-2021, will be carried forward to support the ongoing challenges we face over the medium-term.

In June 2021, it was reported that - despite all the uncertainty and distortion of the pandemic - the council has once again managed its finances well and is reporting a net balance to be contributed to General Fund balance of £651,000 for 2020-2021.

This position has been achieved as a result of disciplined financial management after the council delivered on its plan to tightly control spending as part of its wider strategy to protect essential services from further cuts in the future as far as possible. This position means the council has been able to identify £5.1 million from efficiencies to contribute into a Budget Strategy Reserve to support the 2021-2022 budget as approved by Cabinet in February 2021.

As part of the 2020-2021 budget setting process, a number of emerging pressures were identified. Therefore, as a prudent measure, a Corporate Contingency budget for growth was built into 2020-2021. These pressures have continued to be monitored throughout 2020-2021. Due to the pandemic the operation of the council has been disrupted and it is forecast that this growth budget will not be required in full in 2020-2021. In line with our policy set out in the Budget Report approved by Cabinet in February 2020, the Council will use any efficiencies identified against this growth budget to reduce the level of capital receipts flexibility draw down for 2020-2021.

The 2020-2021 revenue budget monitoring process has identified 'in year' pressures across Adult Social Care. These financial pressures in 2020-2021 have been offset by one-off efficiencies identified from across the wider council. The medium term financial strategy incorporates growth for future years to address these cost pressures going forward.

The General Fund balance was increased at the end of 2020-2021 to £13.7 million (representing approximately 5% of the net budget) and will remain at this level going into 2021-2022. The Council also reported earmarked reserves totalled £121.4 million at the end of 2020-2021. The Council is required to hold a number of reserves which either specific criteria associated with funding, legal requirements or accounting practice; these reserves total £77.5 million. The balance of £43.9 million are reserves set aside by the council to fund future estimated liabilities and planned expenditure.

General reserves reflect the ability of the Council to deal with unforeseen events and unexpected financial pressures in any particular year and are a key indicator of the financial resilience of the organisation. In the opinion of the Director of Finance (Section 151 Officer), the proposed level of reserves, provisions and balances is

adequate in respect of the forthcoming financial year (reported to Cabinet on 17 February 2021).

The Council's current financial position (capital)

The Capital Strategy is underpinned by the Council's Corporate Plan and the Vision 2030. Like many other councils, the City of Wolverhampton Council has experienced significant funding reductions and needs to make careful choices in prioritising where money is spent. However, despite the financial challenges faced, the Council's capital programme includes significant investment programmes that endeavour to create an environment where new and existing business thrive, people can develop the skills they need to need to secure jobs and to create neighbourhoods in which people are proud in live.

On 3 March 2021, Council approved the revised medium term capital programme of £316.4 million for the period of 2020-2021 to 2025-2026 of which £96.4 million is forecast to be required in 2020-2021.

The pandemic has understandably had an impact on the development of capital projects. Given the unprecedented circumstances, there has been delays on some capital schemes. In some instances, cost pressures have also been identified associated with 'social distancing' operating models, materials and how they are sourced. To ensure that these costs can be met, in June 2020, the Council approved budget provision for specific risks emerging from the Covid-19 global pandemic.

The Council's projected financial position

The Council has developed a Five-Year Financial Strategy which is aligned to Our Council Plan 2019-2024. The Strategy provides a strategic framework to address the budget challenge facing the Council over the medium term.

In March 2021, the Council was able to set a balanced budget for 2021-2022 without the use of general fund reserves or the need to undertake significant service reductions.

However, due to the short term nature of Government funding streams, the one-off nature of some of the efficiency measures and the forecast cost implications of the pandemic, the Council reported that the we are faced with a forecast deficit of £25.4 million in 2022-2023, rising to £29.5 million in 2023-2024. This is in addition to the budget reduction and income generation targets of £5.6 million already planned and built into the medium-term financial strategy.

It is vital that the government provides confirmation of long-term, sustainable funding as soon as possible in order that the council can ensure the continuation of key service provision and the delivery of Relighting our City Priorities.

Impact of Covid-19

In March 2020, the World Health Organisation categorised Covid 19 as a global pandemic. As mentioned above, the pandemic has significantly distorted the budget and medium term financial strategy and there will be a 'covid cost' beyond the short-medium term. In September 2020, Cabinet approved the City's covid recovery plan 'Relighting our City'. This plan outlines the Council's commitment to continue to work with partners to support the City to live with and recover from Covid-19.

As part of setting the 2021-2022 budget process and updating the medium-term financial strategy, the ongoing impact of the pandemic has been considered. Due to the distortion of the budget it is difficult to confirm the exact costs directly associated with Covid-19. However, after taking into account the grants specifically for Covid-19, our current assumptions estimate that the net impact of the pandemic is in the region of £6.4 million in 2021-2022. In order to balance the budget, these cost pressures have been met from other efficiencies identified across the Council.

The costs of dealing with the pandemic extend beyond 2021-2022, it is not yet known how long the pandemic will go on for or what the level of future support required will be. There is considerable uncertainty on the cost of 'living with covid' and the additional demand which will continue to be placed on services such as social care and public health and well-being. In addition, the economic costs of the pandemic will place additional pressures on the Council's income collected from fees and charges as well as council tax and business rates for years to come.

In Wolverhampton, as elsewhere across the country, the pandemic continues to affect the lives of our residents and businesses. A key priority of the Council's recovery plan is to support our vital local business as well as generate more jobs and learning opportunities for our residents. The level of support the council is able to provide will be reliant the availability of resources.

The council will continue to lobby government to be fully reimbursed for all cost pressures arising from Covid-19. However, if the grant funding is not sufficient then, the Council will need to review the use of reserves, and possibly identify alternative ways of reducing costs to mitigate against any cost pressures over the medium term.

As detailed above, to ensure that the Council could continue to deliver on its Relight recovery priorities, any efficiencies identified against the general covid grant for 2020-2021, will be carried forward to support the ongoing challenges we face over the medium-term. In addition, the outturn position for 2019-2020 enabled to Council to create a Recovery Reserve of £3 million which will be used to support the Councils Relight agenda.

Treasury Management

The Council's Treasury Management Strategy is reviewed and approved annually by Council. In addition, mid-year reports are presented to Council, and quarterly monitoring reports are regularly reviewed by Councillors in both Executive and Scrutiny functions.

Part of the treasury management operation is to ensure that the Council's cash flow is adequately planned, with cash being made available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council approach to risk management, providing adequate liquidity initially before considering investment return.

The Council recognises the value of in employing external treasury management service providers to assess specialist skills and resources. Therefore, the Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

Due to the receipt of one-off covid Government grants received throughout 2020-2021, there has been no adverse impact on the council's cashflow. However, we will continue to monitor the impact that the pandemic may have on the council's cashflow going forward, including the loss of income across council tax, business rates, and fees and charges.

The Director of Finance (Section 151 Officer) regularly reviews the actual activity against the Treasury Management Strategy Statement and cash flow forecasts.

The Governance Arrangements

The Council has a responsibility to ensure that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, and properly accounted for, and used economically, efficiently, and effectively. The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council has a well-established corporate governance framework. This includes statutory elements like the post of Head of Paid Services, Monitoring Officer and Section 151 Officer. Risk Management and internal controls are also a significant part of the governance framework and are designed to manage risk to a reasonable level.

The Monitoring Officer provides a short report on a monthly basis to the Executive Team updating Cabinet on the position with each of the bodies that the Council either owns or has significant involvement in with bodies in respect of which the Council has potential liabilities. In addition, detailed reports are reported to Executive Team in advance of any substantive document being taken for approval such as an Annual Business Plan.

The outcomes of the Council Plan are underpinned by the governance environment which is consistent with the core principles of the CIPFA / SOLACE framework. The Council carries out annual reviews of all elements of that make up the governance framework to ensure it remains effective.

An overview of this governance framework is provided within the Annual Governance Statement. This includes a review of the effectiveness of the council's governance

framework including system of internal control. The Annual Governance Statement will also include a detailed section on each of the bodies within the Council's group structure setting out what measures we have in place to provide us with assurance on good governance and what performance management takes place.

Risk Management

The continuous budget setting and monitoring cycle captures the major risks and uncertainties facing the council. Major projects are overseen by Project Boards and projects are monitored and reported through 'Verto', which identifies risks, mitigations and timelines.

The Council's risk register is updated and reported on a regular basis to the Senior Executive Board (SEB) and Audit and Risk Committee. At the very start of the pandemic, a separate Covid-19 Risk Register was established alongside the Strategic Risk Register. The Risk Registers include both the budgetary pressures for the current year and the medium term.

Budget reports considered by Cabinet (Resources) Panel and Cabinet also include details of the main budgetary risk facing the council. The main risks facing the council, as with other local authorities are the uncertainties around the future funding streams, impact of demand on statutory services, and the impact of 'living with covid'.

SEB regularly review the budget and medium term financial strategy which incorporates potential known financial risks facing the council.

The External regulatory and control environment

As a local authority the Council has to operate within a highly legislated and controlled environment. An example of this is the requirement for a balanced budget each year combined with the legal requirement for councils to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves.

In addition to the legal framework and central government control, there are other factors such as the role undertaken by External Audit as well as the statutory requirements in some cases for compliance with best practise and guidance published by CIPFA and other relevant bodies.

Against this backdrop it is considered unlikely that a local authority would be 'allowed to fail' with the likelihood being, when faced with such a scenario, that central government would intervene - supported by organisations such as the Local Government Association to bring about the required improvements or help maintain service delivery.

Conclusion

It is considered that having regard to the Council's arrangements and such factors as highlighted above, that the Council remains a going concern.

Report title	Review of Compliance with the CIPFA Financial Management Code	
Accountable Director	Claire Nye, Director of Finance	
Originating service	Strategic Finance	
Accountable employee	Alison Shannon	Chief Accountant
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Report to be/has been considered by		

Recommendation for noting:

The Audit and Risk Committee is asked to note:

1. The Councils review of compliance with the CIPFA Financial Management Code.

1.0 Purpose

- 1.1 This report sets out the outcome the self-assessment of the Council's compliance with the CIPFA Financial Management Code and future actions required to be undertaken to improve and/ or ensure full compliance.

2.0 Background

- 2.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) has introduced a new code, the Financial Management Code 2019 (FM Code).
- 2.2 The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. It sets out for the first time, the standards of financial management for local authorities. The FM Code helps identify the risks to financial sustainability and introduces an overarching framework of assurance which builds on existing financial management good practice.
- 2.3 The FM Code is a principle-based approach, it does not prescribe the financial management processes that local authorities should adopt, however, it requires that local authorities demonstrate that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances.
- 2.4 Good financial management is proportionate to the risks of the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice but for the first time sets explicit standards of financial management.
- 2.5 The underlying principles have been designed to focus on an approach that will assist in determining whether, in applying the standards of financial management, a local authority is financially sustainable. The six key principles are:
- Organisational **leadership** – demonstrating a clear strategic direction based on vision in which financial management is embedded into organisational culture
 - **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs
 - Financial Management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making
 - Adherence to professional **standards** is promoted by the leadership team and is evidenced
 - Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection
 - The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources

- 2.6 Local authorities must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the Chief Finance Officer and their professional colleagues in the leadership team.
- 2.7 Local authorities are required to demonstrate they are working towards the FM Code with the first full year of compliance in 2021-2022.
- 2.8 The purpose of the FM Code is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities.
- 2.9 An initial self-assessment of the Authority's current standing against each of the Financial Management Standards was carried out and has been reviewed by the Section 151 Officer using a RAG rating approach. In summary the findings of the current self-assessment against the 17 Financial Management Standards are as follows:

RAG Rating	Progress Report	Number of Financial Management Standards
Green	Compliance is being demonstrated	14
Amber	Minor to moderate improvements are required to demonstrate compliance	3
Red	Moderate to significant improvements are required to demonstrate compliance	0

- 2.10 The result of the self-assessment indicates an overall rating of Green and reflects that compliance is being demonstrated.
- 2.11 The full assessment against the Financial Management Standard is at Appendix 1

3.0 Financial implications

- 3.1 There are no direct financial implications arising from this report. However, the FM Code provides the Council with an important tool to support the assessment of financial sustainability.

[AS/11062021H]

4.0 Legal implications

- 4.1 Whilst compliance with the code is not a statutory duty in itself, failure to comply could be viewed as not meeting existing statutory duties.

[TC/11062021/A]

5.0 Equalities implications

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

6.0 All other Implications

There are no other implications

7.0 Appendices

7.1 Appendix 1: Self-Assessment CIPFA Financial Management Code

Self-Assessment - Financial Management Code

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
Responsibilities of the Chief Finance Officer and Leadership Team				
A	The leadership is able to demonstrate that the services provided by the authority provide value for money (VFM)	<p>On 17 March 2021 Cabinet approved a Council Performance Framework for 2021-2022.</p> <p>A performance framework has been developed to reflect how the Council is performing against city new and changing priorities, as articulated in Relighting Our City.</p> <p>This performance framework will provide high-level city data on key priorities, benchmark city performance against national and regional data, highlight the impact of targeted interventions, inform strategic decision-making in relation to provision and encourage scrutiny of those strategic decisions.</p> <p>The performance framework will look at two different types of indicators, city indicators and impact indicators which will be reported to Cabinet on a quarterly basis: city indicators are high level indicators that although the council will influence, they may not be able to directly effect. Impact indicators are indicators that demonstrate what the Council is directly doing</p>	<p>The delivery of the performance framework will provide further assurance that the authority is delivering value for money.</p> <p>In addition, benchmarking specific council services will be enhanced.</p> <p>A value for money review of the projects within the Housing Revenue Account (HRA) will also be considered.</p>	Amber

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>to improve outcomes and in turn influence the city indicators.</p> <p>In addition to the overarching framework the following areas provide assurance in specific areas:</p> <p>The Council's Project Assurance Group (PAG), provides assurance that the Council's projects and programmes are operating in line with expected corporate standards. PAG also provides scrutiny of business cases, ensuring that they are robust and demonstrate a clear understanding of time, costs, scope, risk and benefits / disbenefits. VFM is a key aspect of the business case.</p> <p>Key projects also have internal boards and working groups. Where appropriate the boards include members of the Senior Executive Board (SEB). These boards evaluate options, before key decisions are made and monitor progress. Where appropriate, expert consultants are utilised on major projects.</p> <p>The Medium Term Financial Strategy (MTFS) delivers a robust financial plan through a rigorous budget setting process.</p> <p>The External Auditor provides a VFM assessment in which they determined that the 'Council has proper</p>		

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>arrangements to secure economy, efficiency and effectiveness in its use of resources’.</p> <p>The Councils Counter Fraud Team prevent and detect fraud which contributes towards protecting public funds and ensuring VFM by stopping / recovering fraudulent transactions. Counter Fraud updates are reported to the Audit and Risk Committee.</p> <p>Benchmarking is undertaken for specific services such as Adult Social Care, however this could be widened to other service areas.</p> <p>The council work in partnership with neighbouring local authorities, in areas such as children’s social care to secure VFM for services across the region.</p> <p>The Council also participates in data sharing / benchmarking with SIGOMA, ADASS and other organisations.</p>		
B	The authority complies with the CIPFA Statement of the Role of the Chief Finance Officer in Local Government	<p>This is reviewed and completed each year by the Chief Finance Officer (CFO).</p> <p>The CFO is a fully qualified CIPFA member and reports directly to the Chief Executive.</p> <p>The responsibilities of the role of the CFO are detailed within the Constitution.</p>	It is proposed that the statement is shared with SEB.	Green

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>The CFO is a member of the Senior Executive Board and has influence on all material business decisions, ensuring financial implications are provided on all reports.</p> <p>The CFO, through the Strategic Finance Team provides financial and treasury management reports throughout the year to Cabinet and Council.</p> <p>The Strategic Finance team is suitably resources with appropriately qualified staff.</p> <p>There are contracts in place for specialist financial advice (treasury management, specific financial support).</p> <p>The annual Statement of Accounts 2019-2020 received an unqualified external audit opinion.</p> <p>Strategic Finance has received substantial assurance in the key financial systems internal audit.</p>		
Governance and Financial Management Style				
C	The leadership team demonstrates in its actions and behaviours responsibility for	The Council's Audit and Risk Committee has an independent member as well as Councillor representatives. The Committee receives updates, provides independent assurance over governance, risk and internal control. The Audit and Risk		Green

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
	governance and internal control	<p>Committee reports to Full Council on an annual basis.</p> <p>The internal audit annual opinion provides reasonable assurance on the Council's governance, risk management and control processes. This is reported to the Audit and Risk Committee.</p> <p>The Annual Governance Statement draws up on the management and internal control framework of the Council, especially the work of internal and external audit and the Council's risk management arrangements.</p> <p>SEB own and are accountable for the Strategic Risk Register and Internal Audit Plan.</p> <p>SEB have oversight and review the Council's forward plan – the timetable for taking key decisions to Cabinet and Council.</p> <p>The Council is a learning organisation, reviews of the Monitoring Officer are presented to SEB and the Executive Team.</p> <p>The Head of Paid Services is responsible for the proper recruitment and organisation of staff. The Council's Monitoring Officer has a specific duty to ensure the Council, its officers and its elected</p>		

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>members maintain the highest standards of conduct in all they do.</p> <p>The Constitution includes the Financial and Contract Procedure Rules, scheme of delegation and the roles and responsibilities of Senior Officers, elected members and committees. It also sets out the responsibilities of Heads of Services, Budget Managers and employees. It includes the scheme of delegation for decisions. These responsibilities are reinforced in the Management Accountability letter which all managers are required to sign on appointment.</p>		
D	<p>The authority applies the CIPFA / SOLACE Delivering Good Governance in Local Government: Framework (2016)</p>	<p>The Governance and Ethics Committee is a cross-party group which considers and advises the appropriate Council bodies on matters relating to governance and the Constitution.</p> <p>The Audit and Risk Committee provide independent assurance on the adequacy of the governance and risk management framework and the associated control environment. This Committee receive the draft Annual Governance Statement for review and consideration prior to approving the final statement and action plan, which is subsequently monitored and reported on.</p> <p>The Council has a local Code of Corporate Governance. However, this does need updating in</p>	<p>The Local Code of Corporate Governance will be reviewed and updated during the 2021-2022 year in order to reflect the latest CIPFA/SOLACE framework.</p>	Green

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>order to reflect the latest CIPFA / SOLACE Delivering Good Governance in local Government Framework.</p> <p>This is reported in the Annual Governance Statement.</p>		
E	The financial management style of the authority supports financial sustainability	<p>The Constitution details Cabinet/ Committee functions elected members and officer delegations.</p> <p>The Constitution includes the Financial and Contract Procedure Rules and sets out the responsibilities of Senior Officers, Heads of Services, Budget Managers and employees. These responsibilities are reinforced in the Management Accountability letter which all managers are required to sign on appointment. Budget managers are responsible for budget monitoring, and Strategic Finance - review, challenge, advice and have oversight of the whole process.</p> <p>All reports include financial and other key implications. Financial implications are signed off by Strategic Finance.</p> <p>Decision are reported through leadership teams, and SEB for approval, before, they are considered by Cabinet.</p>		Green

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>The Council has 'one council' approach and budgets aligned to the Council's priorities. The Medium Term Financial Strategy is driven by the Section 151 Officer, but also owned by SEB.</p> <p>SEB have regular focussed sessions on the budget and MTFS to inform strategic decision making.</p> <p>Directors lead on providing updates to SEB and ensuring their Cabinet members are briefed on financial monitoring / implications within their service area.</p> <p>Strategic Finance are represented on major project groups and attend Directorate Leadership Teams to provide strategic advice and challenge to enable successful delivery.</p> <p>The Council supports an enabling management style, allowing transformation to be undertaken within services, improving service delivery, driving out efficiencies, and delivering better value for money. The Council ensures that finances and other resources are put in place to ensure that these transformation programmes can be delivered effectively.</p>		

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
Long to Medium Term Financial Management				
F	The authority has carried out a credible and transparent financial resilience assessment	<p>The Council's Five Year Financial Strategy Framework clearly sets out the Council priorities and is aligned to Our Council Plan 2019-2023.</p> <p>The Strategy provides the strategic framework to address the budget challenge facing the council over the medium term.</p> <p>The Council reports updates on the Budget and three year MTFS throughout the year, reports clearly set out the projected budget deficit, the assumptions, uncertainties and risks.</p> <p>In response to the pandemic, the Council has approved its five-point recovery plan, 'Relighting Our City'. On 17 March 2021 Cabinet approved the refreshed Relighting Our City Recovery Framework which demonstrated how the budget has been linked to the key priorities.</p> <p>The Council's Capital Strategy sets out the long-term context in which capital expenditure and investment decisions are made.</p> <p>The capital programme covers a 5 year period and provides a level of contingency to ensure provision is made to sustain key council assets such as fleet, ICT and properties.</p>	<p>Whilst the Council has a Five Year Financial Strategy framework, and three year MTFS, due to the uncertainty over future funding streams focus has been given to addressing the next year's budget deficit in order to set a balance budget and recalculating the potential impact on future years.</p> <p>During 2021-2022 more focus will be given to looking over the medium term with the aim of developing proposals that address the deficit over multiple years.</p>	Amber

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>In addition, the Council Housing Revenue Account is based on a 30 year time horizon and is presented to Cabinet and Full Council on an annual basis.</p> <p>The Council has set a balanced budget for the last consecutive seven years without the need to use general reserves. The Council does, however, have planned use of specific reserves built into the budget.</p> <p>A full risk assessment is undertaken as part of the MTFS. The Council's Strategic Risk register incorporate the MTFS as a risk due to the level of uncertainties facing the Council over the medium term. Mitigations are identified for risks where appropriate; risks are monitored, reviewed and reported against on a regular basis.</p> <p>In relation to demand led services, in particular social care, Strategic Finance supports the services to undertake scenario modelling on potential future demand to determine demographic growth requirements, inflation implications and impact on suppliers.</p> <p>The main challenge facing the Council is the level of uncertainty on the level of resources that will be made available to the council over the medium term. Strategic Finance considers different scenarios to inform the financial strategy.</p>		

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>A number of reserves are held to mitigate against future financial risks such as Budget Contingency reserve, Business Rates equalisation reserve, Treasury Management equalisation reserve. Reserves are also held to support transformation of services, development of projects and delivery of Relight priorities.</p> <p>The Council has successfully maintained the level of reserves.</p> <p>On an annual basis, a specific Reserves Working Group undertake a review of the appropriateness of reserves held by the Council and make recommendations to Cabinet on any future reserves no longer required for their original purpose.</p>		
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members	<p>The MTFs remains a Strategic Risk. The MTFs is reviewed and updated on an ongoing basis including a continual review of the assumptions and projections of the strategy, risks, and the effectiveness of key transformation projects.</p> <p>The Council reports updates on Budget and MTFs throughout the year, reports clearly set out the projected budget deficit, the assumptions, uncertainties, risks and the plan in place to address the budget gap. The Five-year Financial Strategy provides a strategic framework to address the</p>		Green

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p data-bbox="714 272 1462 341">budget challenge facing the Council over the medium term.</p> <p data-bbox="714 384 1451 603">In relation to demand led services, in particular social care, Strategic Finance supports the services to undertake scenario modelling on potential future demand to determine demographic growth requirements, inflation implications and impact of supplier services.</p> <p data-bbox="714 646 1458 826">The main challenge facing the Council is the level of uncertainty on the level of resources that will be made available to the council over the medium term. Strategic Finance considers different scenarios to inform the financial strategy</p> <p data-bbox="714 869 1458 1193">There is considerable uncertainty over the medium on the impact of the pandemic and the cost of 'living with covid,' including the additional demand which will continue to be placed on services such as social care, public health and wellbeing. The economic costs of the pandemic will also place additional pressures on the Council's income collected from fees and charges as well as council tax and business rates for year to come.</p> <p data-bbox="714 1236 1458 1375">The Council approved its Recovery Plan, 'Relighting Our City' in September 2020. This plan outlines the Council's commitment to continue to work with partners to support the City to live with and recover</p>		

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>from Covid-19. In order to support this work, the Council has established a Recovery Reserve.</p> <p>In addition, the delay of the review of Local Government finances has placed uncertainties on the Council's MTFS.</p> <p>The Council's Capital Programme includes a Corporate Contingency for Growth to fund the Council's replacement programme and support new schemes requiring capital investments. Requests for funding are subject to business cases reviewed in line with corporate priorities.</p>		
H	The authority complies with the CIPFA Prudent Code for Capital Finances in Local Authorities	<p>The is aware of its obligations under the Prudential Code and has assessed itself as compliant with this principle.</p> <p>The Council's Full Council has approved the Capital Strategy which is a key document and forms part of the Council's integrated capital, revenue, strategic management and balance sheet planning. The strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity are undertaken in line with service objectives, whilst taking account of stewardship, value for money, prudence, sustainability and affordability.</p>		Green

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>The Council also has a Housing Revenue Account is based on a 30 year time horizon and is presented to Cabinet and Full Council on an annual basis.</p> <p>Treasury management activity is monitored and reported on a quarterly basis to Cabinet, with mid-year and annual reports being considered by Full Council. The Treasury Management Strategy is approved by Full Council each year.</p> <p>The Treasury Management Strategy and performance reports are presented to Our Council Scrutiny Panel for scrutiny and review throughout the year.</p> <p>Specific training on Treasury Management is provided for councillors.</p>		
I	The authority has a rolling multi-year medium term financial plan consistent with sustainable service plans	<p>The MTFS is a 'live' document detailing budget pressures, opportunities, level of resources and the forecast deficit.</p> <p>The continuous budget setting and monitoring cycle captures the major risks, uncertainties and opportunities facing the Council.</p> <p>Medium term financial modelling is undertaken on areas of uncertainty such as social care, and where appropriate growth is built into the MTFS to deal with future forecast demands. Earmarked reserves</p>		Green

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>are held to support service transformation with the aim of driving out efficiencies in future years.</p> <p>The Council reports updates on Budget and MTFS throughout the year, reports clearly set out the projected budget deficit, the assumptions, uncertainties, risks and the plan in place to address the budget gap. The Five-year Financial Strategy provides a strategic framework to address the budget challenge facing the Council over the medium term.</p> <p>In order to be prudent, the MTFS incorporates Corporate Contingency budgets to deal with emerging pressures identified during the budget setting process. These pressures are monitored throughout the year and request for funding are subject the submission of business cases, any efficiencies identified against these budgets are released to support future budget deficits.</p> <p>Regular updates are presented to Leadership Teams, SEB and Cabinet on the Council financial position over the medium term.</p> <p>The Council also hold a General Fund reserve of £13.7 million, which represents approximately 5% of the net budget requirements to deal with any unforeseen events.</p>		

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
The Annual Budget				
J	The authority complies with its statutory obligations in respect of the budget setting process	<p>As required by legislation, the Council set a balanced budget on an annual basis, which is presented and approved by Full Council. The annual budget reports are submitted to Full Council for approval prior to the start of the new financial year.</p> <p>The Council has set a balanced budget without the need to utilise general fund reserves for the last consecutive seven years.</p> <p>Updates on the MTFs and Budget are presented throughout the year to Cabinet for approval.</p> <p>The Council is aware of the circumstances and process in issuing a Section 114 notice but does not envisage this to be an issue over the medium term.</p>		Green
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	<p>The forecast and actual level of reserves are monitored and reported to Cabinet.</p> <p>A number of reserves are held to mitigate against future financial risks such as Budget Contingency reserve, Business Rates equalisation reserve, Treasury Management equalisation reserve. Reserves are also held to support transformation of services, development of projects and delivery of Relight priorities.</p>		Green

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>On an annual basis, a specific Reserves Working Group undertake a review of the appropriateness of reserves held by the Council and make recommendations to Cabinet on any future reserves no longer required for their original purpose.</p> <p>Whilst the Council does not hold high levels of reserves, through good financial management and prudent planning, it has been able to protect the level of reserves.</p> <p>The Final Budget Report approved by Full Council includes a statement from the Director of Finance (Section 151 Officer) on the robustness of the estimates and levels of reserves.</p>		
Stakeholder Engagement and Business Plans				
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget	<p>The budget consultation process forms part of a continuous process of engagement with residents, businesses and other key stakeholder throughout the year which focuses on understanding people's priorities.</p> <p>The council has also invited residents and businesses to submit questions via social media to which the Leader of the Council and Cabinet Member for Resources have provided responses.</p> <p>The Council aligns its resources to Our Council Plan 2019-2024 which set out how we will deliver our</p>	<p>A new digital tool will be re-launched in 2021-2022 giving respondents a chance to set their own Council budget in line with their preferences.</p> <p>Work will continue to embed the budget consultation process into the continuous engagement we have</p>	Green

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>contributions to Vision 2030 and how we work with partners and communities to be a city of opportunity.</p> <p>Alongside managing the emergency response to the Covid-19 pandemic, the Council has also undertaken extensive planning for recovery. The Council engaged with around 2,500 people including residents, young people, the voluntary and community sector and other partners, employees, Councillors and businesses across to city which helped shape the Council's five-point recovery plan – 'Relighting Our City'. The Budget Report in March reported that the MTFS will be aligned to the our Relight priorities, with growth being built in to support our Relighting Our City agenda, in addition to the £3 million Recovery reserve held to support our recovery.</p> <p>On 17 March 2021 Cabinet approved the refreshed Relighting Our City Recovery Framework which demonstrated how the budget has been linked to the key priorities.</p>	with our residents, businesses, and key stakeholders.	
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions	The council uses project management methodology as standard practice, which includes feasibility / options analysis gateway for all registered projects. A later business case gateway check provides further detail on cost / benefit impacts of option selected for further development. The Project	The Council is continuing to develop the project methodology / approach as part of ongoing enhancements. The Council's default	Amber

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>Management Group (PAG) provides scrutiny, support and gateway control to projects.</p> <p>Details are captured in a standardised options appraisal template which is held on central system (Verto).</p> <p>The project methodology at present is a waterfall based approach – with the advancing gateways representing greater levels of understanding about the project.</p>	<p>project methodology at present is the waterfall based approach. However, particularly as a consequence of the uncertainties caused by the pandemic, the need for alternative project management approaches has been brought into sharper focus. Shorter, more critical / urgent projects may be more suited to an agile management approach – this is subject to further work.</p> <p>The Council is also looking to develop a new a contract management framework with supporting documents.</p>	
Monitoring Financial Performance				
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its	The continuous budget setting and monitoring cycle captures the major risk and uncertainties facing the council.		Green

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
	budget strategy and financial sustainability	<p>Quarterly budget monitoring reports detailing the forecast annual outturn position and reasons for variances are presented to the Directorate Leadership Teams and SEB for their consideration and approval.</p> <p>Strategic Finance attend leadership teams and major project groups, identifying at an early stage any emerging risks; providing challenge and strategic support.</p> <p>The Strategic Risk Register is reviewed on a regular basis by SEB and Directorate leads which also informs risks at an early stage.</p> <p>As required, growth is built into the MTFS to address risks identified during the monitoring, which are reviewed and agreed by SEB.</p> <p>Corporate contingencies budgets are also held for emerging risks that are identified, but where there is still a level of uncertainty at the time of budget setting.</p> <p>Approved budget reduction targets are also reviewed as part of the budget setting process to ensure they are still deliverable, undeliverable targets are removed or re-profiled as appropriate.</p>		

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>The Budget reports presented to Cabinet (both MTFS and quarterly monitoring), clearly set out the financial risks.</p>		
O	<p>The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability</p>	<p>The level and areas of credit losses are reviewed on a regular basis and feed into the quarterly monitoring which is reported to elected members.</p> <p>Budget managers also have access to reports on any income still owed for their service areas.</p> <p>Cashflow is monitored on a daily basis and updates shared with the Finance Business Partners and Chief Accountant.</p> <p>The Council holds and maintains a comprehensive list of assets. The year-end process includes detailed valuation of assets by external valuers. These are then reviewed and challenged by Strategic Finance. Reasons for movement are explored and explained.</p> <p>The CFO and Deputy Section 151 Officer review and sign off the assumptions used to calculate major estimates.</p> <p>Provisions are reviewed and agreed with the Director of Finance.</p>	<p>As part of the quarterly monitoring, service areas which generate significant income will be asked to review and comment on outstanding income.</p>	Green

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		<p>The Council has effectively managed its Reserves and reports them to Cabinet. In addition, on an annual basis, a specific Reserves Working Group undertake a review of the appropriateness of reserves held by the Council and make recommendations to Cabinet on any future reserves no longer required for their original purpose.</p> <p>Details around reserves, provisions and balances are shared with SEB.</p> <p>The CFO reviews the Statement of Accountants and confirms that they are a true and fair view of the financial position of the authority as at 31 March in year of account.</p>		
External Financial Reporting				
P	The Chief Finance Officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code	<p>SEB and the CFO are aware of the CFO's responsibilities in terms of the preparation of the annual statement of accounts and is compliant with this principle.</p> <p>Any required changes are reviewed and implemented in advance. Staff attend training / seminars to ensure we are aware of any pending updates/ changes.</p> <p>In addition, information / understanding / approaches are also shared amongst regional colleagues.</p>		Green

Ref	Financial Management Standard	Our Response	Further Actions (if required)	RAG Rating
		The Council met the statutory deadline for the production of the Statement of Accounts.		
Q	The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions	<p>The draft outturn figures are presented to Directorate Leadership Teams and to SEB for review and to agree the final position (including the use of reserves and grants). Directors lead on providing explanations on any variances against budget within their service areas, and are expected to explain what action is being taken to address any adverse variances, both in year and for future years. The Outturn position is presented to Cabinet for approval.</p> <p>The Outturn report includes explanation on variations to budget, updates on use of reserves and any newly identified budget risks that may need to be incorporated into the MTFS.</p>		Green

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Scope of Responsibility

The City of Wolverhampton Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has a Local Code of Corporate Governance, which will be revised in 2021-2022 in line with the latest principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The latest principles have been adopted in this statement.

The Council is also responsible for the strategic management and administration of the *West Midlands Pension Fund* with the Council's Chief Executive, Monitoring Officer and Section 151 Officer holding specific responsibilities for supporting both the members of the Pensions Committee and the Local Pension Board in their role.

The Council has a number of bodies that it either owns or has a potential liability for. This statement also covers the approach taken in relation to these and specifically covers how the Council ensures that there is good governance in respect of these other bodies – the most relevant bodies are:

- *Wolverhampton Homes* is the Council's Arm's Length (Housing) Management Organisation (ALMO) and is a company wholly owned by the Council. The control of the ALMO is through the Board which has representatives drawn from 1/3 council, 1/3 tenants and 1/3 independent. There is a Management Agreement between the Council and Wolverhampton Homes which sets out the contractual and governance arrangements between the parties.
- *Wolverhampton Housing Company Limited* – this is a wholly owned trading company set up under the powers in the Local Government Act 2003 and is known as WV Living focused on developing properties within the City to meet the Council's aspirations in terms of available housing. There is a shareholder agreement in place between the Council and WV Living with WV Living's Business Plan having been approved by the Council and compliance with that business plan being monitored by the Council.

- *Yoo Recruit Limited* – this is a wholly owned trading company set up under the powers in the Local Government Act 2003 and provides staffing to the Council and other bodies. There is a shareholder agreement in place between the Council and Yoo Recruit and the Business Plan has to be approved by the Council and compliance with that business plan being monitored by the Council.
- *Help 2 Own* – this is a limited liability partnership that was jointly established with the West Midlands Combined Authority in 2021 to pilot an affordable housing product that helps to address the issue that many potential buyers who are in work have in raising the deposit to secure a mortgage. This is the subject of a number of legal agreements which sets up the contractual and governance arrangements between the relevant parties.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the council to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

Risk management and internal control are a significant part of the governance framework and are designed to manage risk to a reasonable level. They cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The systems of risk management and internal control are based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2021 and up to the date of approval of the annual report and statement of accounts.

In April 2019 The City of Wolverhampton Council approved a new Council Plan for 2019-2024. The plan builds on the Council's transformation journey with a focus on delivering the following improved outcomes for the City:

Council Plan

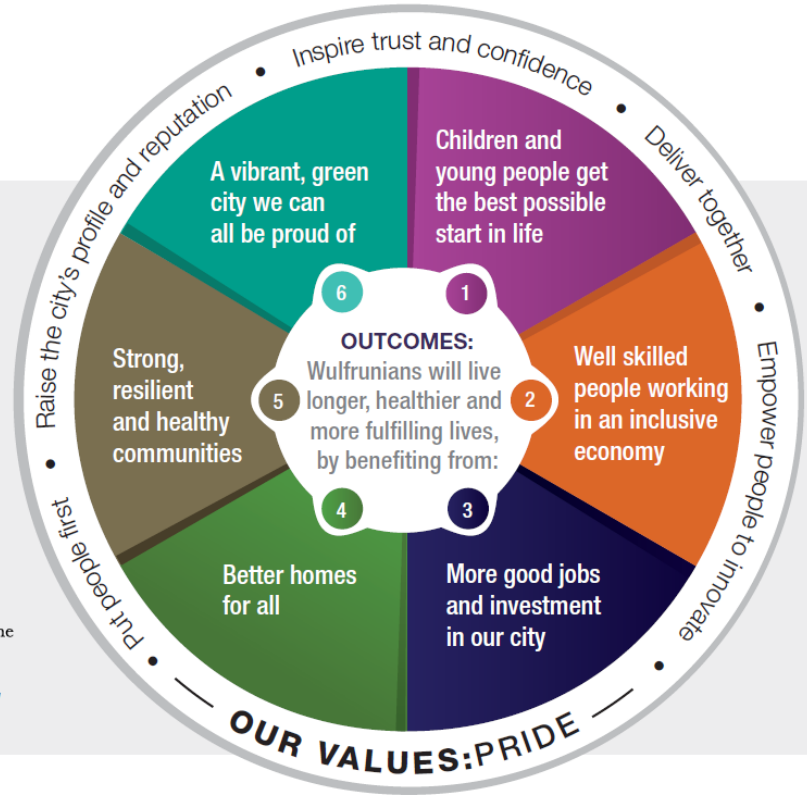
Working together to be a city of opportunity and to deliver our contribution to Vision 2030

CITY OF
WOLVERHAMPTON
COUNCIL



Wolverhampton for Everyone
a people powered city

'Connecting people, places and communities to unlock potential and create change'



A full copy of the [Council Plan](#) can be found here

Following the Covid-19 Pandemic, the Council Plan has been underpinned by a five point 'relight' recovery plan

RELIGHTING OUR CITY

Support people who need us most

Create more opportunities for young people

Generate more jobs and learning opportunities

Grow our vital local businesses

Stimulate vibrant high streets and communities

COUNCIL PLAN

Wulfrunians live longer, healthier and more fulfilling lives

VISION 2030

OUR PRINCIPLES

We will underpin our work with the following key principles;



CLIMATE FOCUSED

This recovery commitment is aligned to our climate change strategy 'Future Generations' and our target to make the City of Wolverhampton Council carbon – neutral by 2028. We are committed to delivering on the recommendations of our Climate Citizen Assembly and to upholding the promises we made when the Council declared a climate emergency in July 2019.



DRIVEN BY DIGITAL

The city is at the forefront of digital infrastructure and innovation. Wolverhampton will be one of the first cities in the world to host a 5G accelerator hub making us truly a world leader in emerging technology. Now more than ever digital skills and connectivity are vital to ensure our residents can access services, interact with friends and family, and enter the job market.



FAIR AND INCLUSIVE

We will continue to tackle the inequalities in our communities which impact on the opportunities of local people. The Council's 'Excellent' rated equalities framework is at the heart of our recovery commitment. No community will be left behind as we transform our city together.

These outcomes and principles are underpinned by the governance environment. This environment is consistent with the core principles of the new CIPFA/ SOLACE framework. In reviewing the Council's priorities and the implications for its governance arrangements, the Council carries out an annual review of the elements that make up the governance framework to ensure it remains effective.

The key elements of the systems and processes that comprise the Council’s governance framework, and where assurance against these is required, are described below.

Core principles of the CIPFA/ SOLACE framework	Assurances required	Governance framework providing assurance	Review of Effectiveness	Issues identified
<ul style="list-style-type: none"> Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law. Ensuring openness and comprehensive stakeholder engagement. Defining outcomes in terms of sustainable economic, social, and environmental benefits. Determining the interventions necessary to optimise the achievement of the intended outcomes. Developing the entity’s capacity, including the capability of its leadership and the individuals within it. Managing risks and performance through robust internal control and strong public financial management. Implementing good practices in transparency, reporting, and audit to deliver effective accountability. 	<ul style="list-style-type: none"> Delivery and communication of an agreed corporate plan Quality services are delivered efficiently and effectively Clearly defined roles and functions Management of risk Effectiveness of internal controls Compliance with laws, regulation, internal policies and procedures Value for money and efficient management of resources High standards of conduct and behaviour Public accountability Published information is accurate and reliable Implementation of previous governance issues 	<ul style="list-style-type: none"> The Constitution (including Head of Paid Service, Chief Financial Officer and Monitoring Officer) Council, Cabinet and Committees Audit and Risk Committee Scrutiny function Standards Committee Internal and External Audit Strategic Executive Board Directors Assurance Statements Corporate and Business plans Medium Term Financial Strategy Strategic and Covid-19 Risk Register Codes of Conduct Whistleblowing and other anti-fraud related policies Financial and Contract Procedure Rules modern.gov (the council’s committee management information system) 	<ul style="list-style-type: none"> External Audit Report to Those Charged with Governance (ISA 260) Report – unqualified opinion Annual Internal Audit Report - unqualified opinion Annual Audit and Risk Committee Report to Council Annual Statement of Accounts Local Government Ombudsman Report Scrutiny reviews Annual Governance Statement – including the follow up of previous year issues 	<ul style="list-style-type: none"> Savings Targets Procurement Contract Monitoring Strategic Asset Plan Civic Halls Constitution Review

The Financial Management Code

During the year and in line with best practice, the Council undertook a self-assessment exercise against the new Financial Management Code in advance of its introduction in 2021-2022. The Code includes the following core principles by which authorities should be guided in managing their finances:

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
 - **Accountability** – financial management is based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
 - Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported with appropriate frequency and with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management and include political scrutiny and the results of external audit, internal audit and inspection.
- The long term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

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The self-assessment found the Council to be in compliance with the Code. However, there were a limited number of matters where areas for improvement were identified. As a result of this, an action plan has been prepared and its implementation will be monitored throughout the year. The results of the exercise will be reported to the Audit and Risk Committee.

Covid-19 Considerations

In 2020-2021 the Council, as with all other local authorities, continued to adapt the ways in which it worked to address Covid-19 not only in terms of ensuring that the City's vulnerable residents have been supported alongside its businesses but also in its governance arrangements.

The Council's approach to governance during Covid-19 has been very clearly set out and shared with Councillors, the key aspects included:

NOT PROTECTIVELY MARKED

Streamlined decision making – following the introduction of full lockdown in March 2020 the Council instigated a decision making approach that ensured that the focus has been on protecting the vulnerable and supporting businesses. Up until the coming into force in May 2020 of the provisions in the Coronavirus Act 2020 allowing for remote decision making by Local Government, all decisions that would have been made by Committees or Council were made using emergency powers provisions in the constitution. Since the provisions on remote meetings were enacted the full range of Council meetings have taken place using those powers and these have been filmed and made available on the Council’s website.

At times the emergency powers have still needed to be used for urgent amendments to the budget and other matters that needed urgent resolution and that would otherwise have gone to Council but circumstances have not allowed this to happen, a good example of this is the award of additional grants to businesses following urgent Government announcements.

All decisions going through the emergency powers process, prior to May 2021, have to be made by the Leader, 2 Cabinet Members and the Chair and Vice-Chair of Scrutiny Board and have been shared with Councillors through a daily update sent to all Councillors and published through the Council’s website. This approach has ensured that decisions have been made rapidly with Councillor involvement from both political groups and have been shared across all Councillors.

All decisions made have been tracked and recorded on detailed spreadsheets with records of whether they need to be made through the urgent decision process or through delegated powers – this has included the following:

- Clear records being kept of the financial pressures as a result of Covid-19 including loss of income, additional spend
 - Clear evidence based approach to explain why decisions have been made, using performance data
 - Communication implications of any approach taken and the need to ensure that the message is received by all communities
- A Covid-19 risk register has been produced interfacing with the Council’s strategic risk register to ensure that the Council has been aware of and taken account of the key Covid-19 risks in an ever changing situation. This register has regularly been taken to the Audit and Risk Committee.

At all times the approach of the Council has been informed and shaped by advice from the Director of Public Health and key partners to ensure that the Council as had the most effective response possible to the pandemic. As part of the governance process key areas of concern have been able to be fed up through the mechanisms set out in the Governance Structure to a regional and national level.

The Council has a responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of councillors and senior officers within the Council who have responsibility for the development and maintenance of the governance framework including Internal Audit's annual report, the Scrutiny function and also by reports made by the Council's external auditors and other review agencies and inspectorates. The above table helps illustrate this framework, where assurance is provided and the processes through which the effectiveness of these arrangements are reviewed.

Opinion for 2020-2021

The review of effectiveness has found the arrangements for the governance framework to be fit for purpose.

A key component of the review of effectiveness is through the work of the Council's Audit and Risk Committee and during the year the Committee continued helping to ensure that the Council had a modern, effective and risk focussed Committee. During the year they:

- Maintained the focus of the Committee on the Council's risk management arrangements, gaining an increased assurance that the Council was managing its risks well.
- Maintained a strong working relationship, through regular progress meetings, with the Council's External Auditors Grant Thornton, the Internal Auditors and Senior Officers. There was also had further engagement with Grant Thornton, through regular consideration of their informative Audit Committee Update publications at Committee meetings.

Internal Audit

Internal Audit has reviewed itself against the governance arrangements set out in the CIPFA Statement on the Role of Head of Internal Audit and the Council is able to confirm that the arrangements conform to these requirements. The Council is also able to confirm compliance with the Public Sector Internal Audit Standards.

Internal Audit has concluded that based on the work undertaken during the year on areas of key risk, the implementation by management of the recommendations made and the assurance made available to the Council by other providers as well as directly by Internal Audit, it can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes".

Internal Audit – Covid-19

A report was presented to the Audit and Committee in June 2020 noting that the UK Public Sector Internal Audit Standards Advisory Board had produced guidance to support audit functions during Covid-19. This stated that all internal audit teams in organisations affected by Covid-19 would need to reassess their work plans and staff priorities. During the year a proportion of the audit resources was temporarily redeployed within the Council to provide assistance in a number of areas including the food distribution hub, the various business support grants teams, assisting Procurement with supplier due diligence checks regarding the supply of personal protective equipment (PPE) and other Covid-19 related grant

assurance. At both the September and December 2020 meetings, the Audit and Risk Committee were informed that in order to reflect the in-year change in risk profile for the Council and to facilitate the above shift in resources, a consultation exercise had been undertaken with the senior management team and the internal audit plan revisited to ensure that the remaining audit resource was focussed in the most effective manner.

As a result of this, it was agreed with the senior management team that a number of audit reviews that initially featured in the current plan, would be put back until the following year, where they again formed part of the assessment of assurance needs exercise. Details of these reviews were provided to the Committee at the December meeting. Audit Services continue to assess the situation, and it was believed that the number of audits planned to be completed, including all of the key financial systems reviews, would still enable Audit to be in a position to provide an annual audit opinion at the year-end.

Managing the risk of Fraud and Corruption

With regards to the CIPFA Code of practice on managing the risk of fraud and corruption - having considered all the principles, the Council is satisfied that it has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud. The activities undertaken in this area were primarily led during the year by the Audit and Risk Committee.

CIPFA's Statement on the Role of the Chief Financial Officer in Local Government

The role of the Council's Section 151 Officer has been assessed against the CIPFA Statement and found to be compliant.

West Midlands Pension Fund

The West Midlands Pension Fund has completed its own "Assurance Framework – Supporting the Annual Governance Statement" which identified that there had been no adverse matters arising from the work behind their assurance framework.

Wolverhampton Homes

The Council's internal auditors also provide the internal audit service for Wolverhampton Homes. They were able to provide reasonable assurance that the Company had adequate and effective governance, risk management and internal control processes, and this was reported through their Audit and Business Assurance Committee.

We recently commissioned an external review of our governance and performance against the new Regulator for Social Housing (RSH) Consumer Standards. The review has confirmed that CWC / WH has an adequate policy framework in place to meet the required standards, whilst highlighting a few areas where we can bolster mechanisms for recording and monitoring performance. We were pleased with the outcome of the review and will ensure a suitable action plan is in place to maintain the required standards.

WV Living

WV Living's accounts are audited separately by external auditors and an unqualified opinion was provided on the accounts for 2019-2020.

During 2020-21 the way in which the Council and WV Living interact has been carefully considered by the Council and as a result a number of changes have been/are being made, these include:

- Appointment of non executive director to the board of WV Living with considerable Housing experience
- Production and approval of a new business plan for WV Living and regular reviews and reports on the compliance with that business plan taken both to the Council's political and officer leadership and also to the Council's Shareholder Board for WV Living
- Strengthening of the Council's Shareholder board – increasing the number of members from 6 to 10 – and ensuring that clear objective advice is provided to the Shareholder Board by Council officers including the S.151 officer and the Monitoring Officer

Yoo Recruit

Yoo Recruit's accounts are audited separately by external auditors and an unqualified opinion was provided on the accounts for 2019-2020. Work is currently underway to ensure that the business plan is fit for purpose and this will be reported on shortly.

Help 2 Own

Help 2 Own has only recently been established. The Council and the WMCA instructed and obtained detailed external advice in order to ensure that the arrangements are fit for purpose and will protect the interests of each body and deliver the proposed outcomes. The partnership will be and will be subject to external audit. This will provide assurance that the partnership has adequate and effective governance, risk management and internal control processes. A detailed report on the way governance works for Help 2 Own will be brought to Cabinet shortly and will be reported to Audit and Risk Committee.

Key changes to the governance framework during the year

During 2020-21 a full review was carried out of the Council's constitution and decision making in the Council. As a result a number of changes were recommended to be made to the constitution at the Annual general meeting in May 2021 these included:

- Simplifying the constitution to make it easier to follow for the public, Councillors and officers
- Clarifying and simplifying the delegations to Committees
- Combining Standards and Governance Committee to produce a Governance and Ethics Committee with a clear focus on good governance and a detailed work programme

- Updating the emergency action power in the light of experiences during Covid-19
- Updating the rules of debate for Council meetings
- Adopting the Local Government Association's Model Code of Conduct
- Updating the Council's Contract Procedure Rules in the light of the end of the EU exit transition period

This work continues with further changes to be brought to Council in 2021 including changes to the officer delegations. In addition work continues to review the approach to policy formulation and scrutiny and proposals. A proposal was agreed by the Council's Governance Committee in February 2021 to introduce a new approach to policy formulation and scrutiny in 2022 as a result of the impact of the pandemic with a pilot being carried out later in 2021.

As part of the Constitution review work a review has also taken place on support for Councillors leading to a new Councillor induction and development programme for new and existing Councillors supporting them on key aspects such as declaration of interests.

Regular briefings continue to take place of all cabinet members, opposition leader/deputy leader and chairs of panels ensuring that there is proactive information provided and discussion on key issues, risks and matters. As part of this monthly briefings are given on the risks and issues in relation to the Council owned bodies and the steps taken to address any risks. As part of this work a review has also taken place of the lessons learned in other authorities in governance terms following a number of Public Interest/Best Value Reports. This has led to additional assurance work being carried out that has provided re-assurance that governance arrangements are fit for purpose in the Council.

Progress on the Governance Issues from 2019-2020

The table below describes the governance issues identified during 2019-2020 and the progress made against these during 2020-2021.

2019-2020 - Key areas for Improvement	End of year update
<p><i>Savings Targets</i></p> <p>In March 2020 the Council approved a balanced budget for 2020-2021 without the use of general reserves. It is estimated that further savings of £15.5 million are required in 2021-2022 rising to £20.2 million in 2022-2023.</p> <p>It is important to note that a number of assumptions have been made with regards to the level of resources that will be available</p>	<p>In March 2021 the Council approved a balanced budget for 2021-2022 without the use of general reserves.</p> <p>It is important to note that the financial implications of the pandemic have significantly distorted the budget and Medium Term Financial Strategy. Current projections indicate that having taken into account additional government grant, there is a net cost pressure of over £6 million in 2021-2022 as a result of Covid. In order to set a balanced budget, this cost</p>

to the Council, and that there continues to be a considerable amount of uncertainty with regards to future funding streams for local authorities over the forthcoming Comprehensive Spending Review period. At the point that further information is known it will be incorporated into future reports to Councillors. Any reduction in the Government's allocation of funding to the Council would have significant detrimental impact and further increase the budget deficit forecast of the medium-term.

Due to Covid-19, government have announced that the Review of Relative Needs and Resource will not be undertaken this year. It is understood that a spending review will take place but we would anticipate that this will be for one year only.

Council approved that work starts on developing budget reduction and income generation proposals for 2020-2021 onwards in line with the Five Year Financial Strategy, with progress reported back to Cabinet in July 2020.

Due to Covid-19 it has not been possible to progress this work. Further we have identified that budget reductions and income generation proposals built into the budget for 2020-2021 may not be deliverable at this stage.

The Council must continue to provide information to MHCLG and seek funding to mitigate the impact of Covid-19 both for 2020-2021 and the medium term.

The Council must also continue to look at budget reduction proposals to mitigate the impact of Covid-19 and to address the medium term deficit.

pressure has been met from other efficiencies identified across the Council.

During 2021-2022 work will continue to monitor the financial impact of Covid to both inform the in year budget position and to inform medium term forecasts.

Looking forward it is estimated that further savings of £25.4 million are required in 2022-2023 rising to £29.6 million in 2023-2024 in order to set balanced budgets.

These forecasts take into account the potential ongoing impact of Covid in addition to the underlying budget pressures that face the Council.

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

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

Procurement, Contract Management and Monitoring
 This will remain ongoing due to the changes to regulation and legislation, particularly in the light of our exit from the EU.

This will continue to remain ongoing due to the changes proposed in the Government's Green Paper on 'Transforming public procurement'.

<p><i>Strategic Asset Plan</i></p> <p>Review and Update the Strategic Asset Plan and Action Plan taking into account the Our Space programme proposals. This programme includes asset rationalisation of the portfolio determining future direction of travel for each asset e.g. retain, dispose or reuse (i.e. community asset transfer, public sector partnering). The programme will identify and ensure that only those land and property assets required for operational or strategic purposes are to be retained and that a clear plan for their development and operation is in place (including future investment requirements). This will result in a more cost-efficient property estate delivering running cost efficiencies, reduction in carbon emissions and potential for achieving capital receipts. Consideration will also be given as to how new income can be generated from property assets whilst protecting the existing income.</p>	<p>We continue to review and update the Strategic Asset Plan and Action Plan taking into account the Our Space programme proposals. This programme includes asset rationalisation of the portfolio determining future direction of travel for each asset e.g. retain, dispose or reuse (i.e. community asset transfer, public sector partnering). The programme will identify and ensure that only those land and property assets required for operational or strategic purposes are to be retained and that a clear plan for their development and operation is in place (including future investment requirements). This will result in a more cost-efficient property estate delivering running cost efficiencies, reduction in carbon emissions and potential for achieving capital receipts. Consideration will also be given as to how new income can be generated from property assets whilst protecting the existing income.</p>
<p><i>Civic Halls</i></p> <p>Delivery of the Civic Halls in accordance with any set budget and in line with the set timeline will be closely monitored by the Council throughout, and the Council will ensure that the contracts in place are complied with.</p>	<p>The project is ongoing and the delivery of the Civic Halls continues and remains closely monitored by the Council. As part of the project governance, The Council will continue to ensure that all contracts are in place and complied with.</p>
<p><i>GDPR</i></p> <p>This is an ongoing issue in terms of ensuring compliance with GDPR through regular training and continuing to provide transparent reporting of the levels of compliance with GDPR.</p>	<p>Work has taken place throughout 2020-21 to ensure that the Council continued to meet its obligations in GDPR terms notwithstanding the very different ways of working having to be adopted as a result of the pandemic. This has included regular reminders on ways of working and focused support for relevant teams with greater risk.</p>
<p><i>Constitution review</i></p> <p>Review and modernise the Council's constitution and decision making processes – this includes reviewing the Council's Code of</p>	<p>As detailed above the Constitution has been reviewed and updated with a number of changes being made. This process is continuing in 2021 with a</p>

Conduct and ensuring that the constitution is easy to understand, easy to access and supports appropriate and effective decision making, building on the positive approach to decision making that has taken place during the Covid-19 pandemic. This also includes ensuring that there is an effective approach to policy development and scrutiny within the Council.

further set of changes to be brought to Council in 2021 including changes to:

- Officer Delegations
- Financial Procedure Rules
- Employment Procedure Rules

Action Plan for the Significant Governance Issues identified during 2020-2021 which will need addressing in 2021-2022

Based on the Council's established risk management approach, the following issues have been assessed as being key for the purpose of the 2020-2021 annual governance statement. Over the coming year appropriate actions to address these matters and further enhance governance arrangements will be taken.

2021-2022 Key areas and actions for implementation	Responsibility and expected implementation date
<p><i>Savings Targets</i></p> <p>In March 2021 the Council approved a balanced budget for 2021-2022 without the use of general reserves. It is important to note that the financial implications of the pandemic have significantly distorted the budget and Medium Term Financial Strategy. Current projections indicate that having taken into account additional government grant, there is a net cost pressure of over £6 million in 2021-2022 as a result of Covid. In order to set a balanced budget, this cost pressure has been met from other efficiencies identified across the Council. During 2021-2022 work will continue to monitor the financial impact of Covid to both inform the in year budget position and to inform medium term forecasts.</p> <p>Looking forward it is estimated that further savings of £25.4 million are required in 2022-2023 rising to £29.6 million in 2023-2024 in order to set balanced budgets. These forecasts take into account the potential ongoing impact of Covid in addition to the underlying budget pressures that face the Council.</p> <p>In addition to the impact of Covid, there continues to be significant uncertainty about future funding streams for local authorities. At the time of writing it is unclear when the Government will undertake the Comprehensive Spending Review, Fair Funding Review, Business Rates Reset and Business Rates Retention Review.</p> <p>Work has started to address the budget deficit over the medium term and updates will be brought to Cabinet throughout the year.</p>	<p>Director of Finance March 2022</p>
<p><i>Procurement</i></p> <p>In December 2020 the Government published a Green Paper on 'Transforming public procurement' which proposes a number of changes which would impact on the Council. Work will be undertaken to monitor the progress of this paper and to respond appropriately to any resulting changes in legislation.</p>	<p>Director of Finance March 2022</p>

<p><i>Contract Management</i></p> <p>Contract management practises across the Council have been found to be inconsistent. The Council also utilises a contract management system which is a central repository database that has a record of those contracts that have been procured, but not those that have been commissioned locally. Consequently, the Council has decided to transform how contract management is delivered and contracting process are measured to generate economic and efficiency benefits aligned to the Council Plan and other relevant strategies, such as Wolverhampton Pound and Relighting Our City.</p> <p>The Council plans to have a one council approach to contract management. The intention is to develop a contract management framework, establish external contract management training for officers and procure a contract management software system. The system will provide greater visibility of contract performance and a strategic oversight of contracts. These identified areas will provide a consistent and efficient method where possible and contribute to continuous improvement whilst obtaining value for money. These improvements will also prepare the Council in good stead for the forthcoming new procurement regulations as the Government's green paper, 'Transforming Public Procurement', identified contract management and commercial life cycle as key areas which will form part of the new procurement regulations.</p>	<p>Director of Finance March 2022</p>
<p><i>Strategic Asset Plan</i></p> <p>We have made progress on reviewing and challenging the Council's asset portfolio as part of the Our Assets Programme (formally referred to as Our Space programme), particularly in light of how services will operate moving forward as part of Relighting our City. This has included developing six workstreams Asset Data, Asset Review, Retained Estate, Civic Centre, Surplus Assets and Asset Disposals. The Strategic Asset Plan and Action Plan will be updated following completion of this programme.</p>	<p>Deputy Chief Executive March 2022</p>
<p><i>Civic Halls</i></p> <p>Delivery of the Civic Halls in accordance with any set budget and in line with the set timeline will continue to be closely monitored by the Council throughout, and the Council will ensure that the contracts in place are complied with.</p>	<p>Director of Regeneration March 2022</p>
<p><i>Constitution Review Conclusion</i></p>	<p>Director of Governance March 2022</p>

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

Future Assurance

Where appropriate, a progress report on the implementation of the above actions from the key areas will be reported to the Audit and Risk Committee during 2021-2022.

Certification

To the best of our knowledge, the governance arrangements, as outlined above have been effectively operating during the year with the exception of those areas identified as requiring improvement. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our annual review.



Ian Brookfield, Leader of the Council

Date:



Tim Johnson, Chief Executive

Date:

CITY OF WOLVERHAMPTON COUNCIL	Audit and Risk Committee 21 June 2021
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Report title	Annual External Audit Letter	
Accountable director	Claire Nye, Director of Finance	
Originating service	Strategic Finance	
Accountable employee(s)	Emma Bland	Finance Business Partner
	Tel	01902 553928
	Email	Emma.Bland2@wolverhampton.gov.uk
Report to be/has been considered by	None	

Recommendations for noting:

The Audit and Risk Committee is asked to note:

1. The Annual Audit Letter provided by Grant Thornton.

1.0 Purpose

- 1.1 To update the Audit and Risk Committee on the key findings arising from the work carried out at the Council, its subsidiaries (the group) and the West Midlands Pension Fund for the year ended 31 March 2020.

2.0 Background

- 2.1 Annually Grant Thornton provide a commentary on the results of their work to the Council and external stakeholders, and to highlight issues that they wish to draw to the attention of the public. A copy of the Annual Audit Letter is attached at Appendix A.

3.0 Financial Implications

- 3.1 The audit of the accounts and the Value for Money conclusion by the external auditors, are important elements of the accountability and transparency of the Council's finances.
[EB/10062021/M]

4.0 Legal implications

- 4.1 The Secretary of State makes the Accounts and Audit Regulations in exercise of powers conferred by the Local Audit and Accountability Act 2014. The Accounts and Audit Regulations 2015 require the 2019-2020 Statement of Accounts be produced in accordance with proper practice.

- 4.2 This is exemplified by the Code of Practice on Local Authority Accounting which is published by CIPFA. These regulations also require that the accounts are approved by 30 August 2020 and published by 30 November 2020.

[TC/10062021/Y]

5.0 Equalities implications

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

6.0 All other Implications

- 6.1 There are no other implications arising from this report.

7.0 Schedule of background papers

- 7.1 There are no relevant preceding reports.

8.0 Appendices

8.1 Annual External Audit Letter

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The Annual Audit Letter for City of Wolverhampton Council

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Year ended 31 March 2020
9 April 2021
Updated 6 May 2021



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Appendices

- A Reports issued and fees
- B Recommendations raised

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at City of Wolverhampton Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Risk Committee as those charged with governance in our Audit Findings Report on 26 November 2020.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £12,500,000, which is approximately 1.5% of the group's gross cost of services.
Financial Statements opinion	<p>We gave an unqualified opinion on the group's financial statements on 30 November 2020.</p> <p>We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and investment properties and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.</p>
Whole of Government Accounts (WGA)	On 6 May we completed our work on the Council's consolidation return following guidance issued by the NAO. The work has been protracted due to technical issues with the Government's central system (OSCAR), which meant the Council were unable to provide a full "cycle 2 auditor's report" as required until 9 March. Details of our findings are included on page 15.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 November 2020.

Certificate We certified that we have completed the audit of the financial statements of City of Wolverhampton Council on 6 May 2021 upon completion of the WGA work.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic had a significant impact on the normal operations of the group and Council, such as administration of grants to businesses, closure of schools and car parks with additional challenges of reopening services under new government guidelines as well as redeployment of staff to work on all of the above. As a key body in the frontline response to the pandemic, the Council has worked closely with key partners to provide support to businesses, support to individuals, and reassign staff to areas of need.

The Council has since engaged with local people to develop a plan aimed at helping Wolverhampton recover from the impact of the pandemic: *Relighting Our City of Wolverhampton Council Recovery Commitment*.

The Council sensibly undertook a trial run ahead of lockdown being announced to ensure that its systems were able to function remotely, which enabled teething problems in terms of access to systems to be worked through.

Despite the significant impact authorities were nevertheless required to prepare financial statements as normal with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.

Restrictions for non-essential travel meant both Council and audit staff conducting the audit on a wholly remote basis. This necessitated greater reliance on technology than usual for these remote working arrangements eg video calling, physical verification of assets and completeness accuracy of information produced by the entity.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
May 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £12,500,000, which is approximately 1.5% of the group's gross cost of services. We determined materiality for the audit of the Council's financial statements to be £12,400,000, which is approximately 1.5% of the Council's gross cost of services. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality of £625,000 and £620,000 for the group and Council respectively, above which we reported errors to the Audit and Risk Committee in our Audit Findings Report.

We also set a lower level of specific materiality of £40k for senior officers remuneration as we considered the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to a reader of the accounts.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council and group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected circumstances to have an impact on the production and audit of the financial statements for the year ended 31 March 2020, included and not limited to:</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties potentially impacting on the quality and timing of the production of the financial statements, and the evidence we could obtain through physical observation • Volatility of financial and property markets increasing the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we could obtain to corroborate management estimates • Financial uncertainty requiring management to reconsider financial forecasts supporting their going concern assessment on whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements required significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. 	<p>We worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations.</p> <p>We liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. We have evaluated:</p> <ul style="list-style-type: none"> • the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • whether sufficient audit evidence could be obtained through remote technology; • whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • engaged the use of auditor experts in respect of Property, Plant & Equipment (PP&E) valuations – refer to pages 7 and 8 for further detail on this work. 	<p>Our audit work has not identified any specific issues in respect of Covid-19. However,</p> <ul style="list-style-type: none"> • In their reports, the Council's internal and external valuers confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. • Similarly, the West Midlands Pension Fund has included a material valuation uncertainty disclosure in relation to its property funds which form part of the pension scheme assets as a result of Covid-19. <p>As a result we have included Emphasis of Matters paragraphs highlighting these matters within our auditor's report. These do not affect our opinion that the statements give a true and fair view of the Council's financial position and the income and expenditure for the year but are added to indicate a matter which is disclosed appropriately but which we consider is fundamental to a readers' understanding of the financial statements.</p> <p>The Council also updated its disclosure of post balance sheet events, to include information relating to funding received since 1 April 2020 and other significant events.</p>

Audit of the Financial Statements

Significant Audit Risks (continued)

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings and investment properties</p> <p>Council Housing £838.7m Land and Buildings – Other £429.4m Investment Properties £33.9m</p> <p>The Authority revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date.</p> <p>The valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of valuers to estimate the current value as at 31 March 2020.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>We do not consider this risk to apply to the other components within the group as neither Wolverhampton Homes Limited or City of Wolverhampton Housing Company Limited has land and buildings, which it carries as property, plant and equipment.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work, which has included the use of our own value to assist with our review and challenge 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 tested on a sample basis revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial Statements 	<p>We have no concerns over the competence, capabilities and objectivity of the internal and external valuation experts used by the Council.</p> <p>Our challenge identified that:</p> <ul style="list-style-type: none"> the Council's valuer had provided an incorrect valuation for one of the Council's schools in the previous year due to a spreadsheet error. The carrying value of this asset was revised upwards by £7,707k. capital expenditure on a building had not been taken into account in its revaluation. As a result the valuation of this asset was increased by £648k. the valuation report for Council Housing did not reflect additions and disposals made during the year. The value of these assets was subsequently adjusted to take account of these movements. there was a significant increase between last year's Council Housing valuation and this from £751m to £838m. The Council was unable to explain the reasons for the increase, predominantly due to the Council having a change in valuer for his financial year. The Council therefore commissioned its new valuers to value the Council Dwellings as at 31 March 2019 and also at 31 March 2018 to assist with its explanations. As a result of this exercise there is a variance of £85,265k as at 31 March 2018 and £69,854k as at 31 March 2019. Given the significant of these differences the accounts have been amended accordingly for this year and as a prior period adjustment.

Audit of the Financial Statements

Significant Audit Risks (continued)

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings and investment properties continued....</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 80</p>	<p>continued....</p>	<ul style="list-style-type: none"> • an input error occurred within a spreadsheet used to calculate the valuation of the Council housing stock which had an impact of £9,965k. • garages had been valued inconsistently between the current year and prior year. This indicated that there was a potential understatement of approximately £3,901k in the prior year, which was not considered to be material and therefore not adjusted. • a reconciliation between the valuer's report for Investment Property and the Asset Register has identified one asset which has been incorrectly included within the Other Land and Building category, instead of Investment Property. Other Land and Buildings are therefore overstated by £713k, and Investment Property understated by the same amount. This has not been adjusted on the grounds of materiality. <p>A significant amount of work was undertaken as part of our audit challenge involving a significant amount of time and effort both on our part as well as on the part of the Council's estates team, finance team and valuer. We are aware that the Council is planning an increased amount of its own quality assurance processes for future years such that any errors are identified and resolved prior to the audit process.</p> <p>As noted on page 6, the Council's valuers confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'.</p> <p>We have therefore included an Emphasis of Matter – 'effects of Covid-19 on the valuation of land and buildings' within our Independent auditor's report. This highlights the Council's disclosures to users of the financial statements. Our opinion is not modified in respect of this matter.</p>

Audit of the Financial Statements

Significant Audit Risks (continued)

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>Net pension liability – Council - £624.6m</p> <p>Net pension liability – Group - £658.8m</p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statement.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</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 Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; assessed the competence, capabilities and objectivity of the actuary who carried out the authority's pension fund valuation; assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and obtained assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>The Authority's net pension liability at 31 March 2020 is £624.6m (PY £594.6m). A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>We have compared the assumptions used by the Council's actuary against industry benchmarks. Based on the work performed we are able to conclude that management's assumptions overall are reasonable.</p> <p>There has been a £19m net actuarial gain during 2019/20. The pension fund auditor has included an emphasis of matter in their audit report on the accounts of West Midlands Pension Fund to reflect a material valuation uncertainty given by the valuers on the Pension Fund's Property Investments (as a result of the impact of Covid-19).</p> <p>The Council has made appropriate disclosures explaining this uncertainty, which we have drawn to the reader's attention in our auditor's report by way of an Emphasis of Matter paragraph. Our opinion is not modified in respect of this matter.</p>

Audit of the Financial Statements

Significant Audit Risks (continued)

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</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 control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determined the criteria for selecting high risk unusual journals gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>We identified from our review of the journal control environment in previous years that both the Chief Accountant and the Director of Finance had the ability to post journals. From our work during this year's audit we note that journal posting rights for these individuals have now been removed. However, there was a period during the financial year ending 31 March 2020 whereby the ability to post journals still existed. As this does not constitute best practice we engineered our testing to obtain an appropriate level of assurance that this weakness did not give rise to a possible material misstatement. From the testing performed to date we are content that these individuals did not post any journals during the period.</p> <p>From the sample testing of journals we have found that they were appropriate, eligible and valid, and can be agreed to supporting evidence.</p>

Audit of the Financial Statements

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19 General</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates • For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that, quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions. • Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. 	<p>We worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations which ultimately remained the same.</p> <p>We liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose.</p> <p>We have:</p> <ul style="list-style-type: none"> • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. • evaluated whether sufficient audit evidence could be obtained in the absence of physical • verification of assets through remote technology • evaluated whether sufficient audit evidence could be obtained to corroborate significant • management estimates such as asset valuations • evaluated management's assumptions that underpin the revised financial forecasts and • the impact on management's going concern assessment; • engaged the use of auditor experts for high risk estimates such as the Directly Held Property and complex Insurance assets. 	<p>We extended and enhanced audit procedures in areas considered to be particularly at risk, such as Level 3 asset valuations and Directly Held Property as a sub sector of the same. We also enhanced our procedures around Information Produced by the Entity (IPE) to ensure that technology such as screen sharing and video calls were utilised to gain additional assurances over reports produced by the entity where lockdown restrictions meant we could not be physically present or in relation to prime documents where there may have been considered a risk of manipulation.</p> <p>We have no concerns to report in relation to the impact of Covid-19 on the Fund's ability to operate remotely or around IPE. However, we included an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures associated with the Fund's direct property holdings as a result of Covid-19. Our opinion is not modified in this respect.</p>

Audit of the Financial Statements

Pension Fund Significant Audit Risks (continued)

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19 continued....</p> <p>Disputes between oil producing countries causes a further significant deterioration in the value of global equities</p> <p>As at March 2020, loss of investor confidence following the spread of the Covid-19 virus and the fall in global oil prices had caused a significant decrease in the value of global equities. Following our plan issued in March 2020, we subsequently upgraded the risks associated with Covid-19 and wider economic instability to a significant risk.</p>	<p>continued....</p>	
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ide of controls is present in all entities. The Pension Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of controls, in particular journals, management estimates and transactions outside of the course of normal business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determined the criteria for selecting high risk unusual journals tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; evaluated the rationale for any changes in accounting policies, estimates of significant unusual transactions. 	<p>As a result of the pandemic and remote working arrangements, additional scrutiny was applied to IPE (as previously described) and we ensured that journals designed to affect financial performance at year end were included in our sample.</p> <p>We do not have any concerns to report in this area.</p>

Audit of the Financial Statements

Pension Fund Significant Audit Risks (continued)

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The valuation of Level 3 investments is incorrect</p> <p>By their nature Level 3 investment valuations lack observable inputs.</p> <p>These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters.</p> <p>Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair values of these assets.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> evaluated management's processes for valuing Level 3 investments; reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments and ensure that the requirements of the Code are met; independently requested year-end confirmations from investment managers; for a sample of investments, tested the valuation by comparing the value per the General Ledger (typically based on an investor statement as at the reporting date or, in the case of harder to value assets, the latest capital statement available adjusted for known cash movements in the final quarter of the year) to direct confirmation of capital balances from Investment Managers and, where available, latest audited financial statements. completed sample testing of purchases and sales to prime documentation across the period to support our reconciliation of opening and closing balances. <p>In addition to the above procedures, identified in our audit plan, as a result of the impact of the Covid-19 pandemic we varied and enhanced our approach as follows:</p> <ul style="list-style-type: none"> in addition to reviewing control reports and audited financial statements where available, we also requested responses from fund managers around their use of the most appropriate International Private Equity and Venture Capital Valuation (IPEV) [or equivalent] methodology in their valuation books, specifically updated in the light of the most recent guidance available in relation to Covid-19. we also performed an analysis by market sector of the Fund's holdings, with a particular focus on hard to value assets, with a view to identifying any particular asset classes or sectors which we viewed as a particular risk as a result of the economic impact of the pandemic and provided further challenge to the Fund around the valuations of those assets. 	<p>We identified an extrapolated £33m possible overstatement of Net Asset Values in relation to Level 3 investments. This is principally a function of the timing of the production of financial statements and the particular challenges faced in the markets in March 2020; per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash which are then assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the audit date. We would typically expect to see a number of small variances as a result of this, usually netting out to a below trivial (and therefore non reportable) variance. The higher than usual variance is indicative of the wider uncertainty in the markets at the balance sheet date, but is not a material difference and does not indicate any weakness in management's arrangements for estimating investment values at year end. As the figure is an extrapolation it is not possible to adjust for it and management have determined not to undertake additional work to quantify exact differences on the basis that the difference is not material.</p>

Audit of the Financial Statements

Pension Fund Significant Audit Risks (continued)

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of Directly Held Property (Level 3 Investment) (Annual Revaluation)</p> <p>The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£981 million as at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2020. We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; independently requested year end confirmations from the valuer and supporting documents as relevant from the Fund's property managers; evaluated the competence, capabilities and objectivity of the valuation expert; written to the valuer to confirm the basis on which the valuations were carried out; challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Fund's valuer's report and the assumptions that underpinned the valuation; and in addition to the stated procedures per our audit plan, in response to wider market uncertainty relating to property valuations, we have engaged an auditor's expert (in this case, a firm of RICS qualified surveyors) to perform a detailed review of the methodology and assumptions employed by the valuer. To compliment this we also undertook additional audit procedures to evaluate possible impairment by assessing cash collection rates and ongoing covenant strength. 	<p>Our audit work has not identified any issues in relation to the Fund's valuation of its Direct Property holdings. However, the valuer has included a material uncertainty clause in relation to some of the Fund's direct property holdings to reflect market conditions at the reporting date.</p> <p>We are therefore including an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures within the Fund's financial statements associated with the Fund's direct property as a result of Covid-19.</p> <p>Our opinion is not modified in this respect..</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 30 November 2020.

Preparation of the financial statements

The Council presented us with draft financial statements in June in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to new remote access working arrangements. This has been driven primarily by the use of technology and regular communication between the teams. We have both utilised video calling, screen sharing and other means to the fullest of our ability in order to carry out audit procedures and verify the completeness and accuracy of information.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Risk Committee on 26 November 2020.

In addition to the key audit risks reported above, we identified issues for which recommendations were raised for the Council's management to address for the next financial year. These are included as an appendix to this letter.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in June.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of West Midlands Pension Fund on 30 November 2020. We also reported the key issues from our audit of the pension fund accounts to the Pensions Committee (a sub-group whom we have determined we are required to communicate with) and the Audit & Risk Committee of the City of Wolverhampton Council who we have determined are those charged with governance on 30 September 2020.

In addition to the key audit risks reported above, we identified issues during our audit that we asked management to address for the next financial year. These are included as an appendix to this letter.

Whole of Government Accounts (WGA)

We have completed our work in line with instructions provided by the NAO, as the Council has met the threshold above which, work is required to be performed.

As noted on page 3 the work has been protracted due to technical issues with the Government's central system (OSCAR), which meant the Council were unable to provide a full "cycle 2 auditor's report" as required until 9 March.

We identified as part of our review that an amendment of £7m due to be made between miscellaneous income and miscellaneous expenditure in order that the return matched the accounts and supporting workpapers had not been made. Furthermore it could not be corrected as the cycle 2 report had been inadvertently submitted by the Council as "final" to the WGA.

We therefore reported this difference along with other unadjusted misstatements as reported to you in our Audit Findings Report, to the National Audit Office and HM Treasury as required.

Audit of the Financial Statements

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not deployed any of our statutory powers in relation to the year ending 31 March 2020 in respect of City of Wolverhampton Council.

Certificate of closure of the audit

On completion of our work on WGA we were able to certify that we have completed the audit of the financial statements of City of Wolverhampton Council on 6 May 2021.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in November 2020, we agreed recommendations to address our findings, which are set out on the following pages.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Civic Halls Refurbishment</p> <p>We noted in our 2018/19 VFM conclusion that this has been a difficult and complex project for the Council and that the management arrangement for the Civic Halls were not adequate and that therefore a qualified “except for” value for money conclusion was given. Given the conclusion reached in the prior year, it is therefore considered appropriate to follow this risk up for the 2019/20 to assess the Council’s progress.</p>	<p>As part of our work we have reviewed progress being made in relation to this Civic Halls refurbishment, both from a project management and budgetary point of view, and also assess how the lessons learned are being applied to other capital projects.</p> <p>To aid this latter point we have discussed internal audit’s involvement in the various project and programme boards and are satisfied from our discussions and the supporting documentation supplied that appropriate governance arrangements are in place and that internal audit are supporting from an advisory capacity.</p>	<p>We have concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place.</p> <p>However we noted that there continue to be risks associated with the delivery of this project:</p> <ul style="list-style-type: none"> • The Council needs to ensure that with any value engineering carried out, the project isn’t unrealistically shoe-horned into a budget, as there is a risk that the resulting project is sub-optimal and does not meet the original objectives • The Council needs to continue monitoring and reporting delivery of the project at all levels on a frequent basis to ensure that when problems arise it can be agile in its response.

Value for Money conclusion

Value for Money Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial resilience</p> <p>The Authority has historically managed its finances well, achieving financial targets. The Budget and Medium Term Financial Strategy considered by approved by Full Council in February 2019 identified that the budget for 2019/20 was in balance without the use of general reserves.</p> <p>However, the Medium Term Financial Strategy reviewed as at the time of planning noted that the Council was faced with finding further budget reduction and income generation proposals totalling £19.5 million. The Council therefore needs to maintain focus on delivering its budget in 2019/20 and focussing on savings for 2020/21 and thereafter if it is to remain financially resilient and is able to address the projected future budget deficits.</p>	<p>As part of our work we have reviewed the Council's Medium Term Financial Strategy and financial monitoring reports and assess the assumptions used and savings being achieved.</p>	<p>On the basis of the work performed we have concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place to ensure it plans finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>

Value for Money conclusion

Value for Money Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Strategic Asset Management</p> <p>We reported last year that while we thought arrangements were adequate, the speed of implementation of the Council's Strategic Asset Management Plan was slow. As this remains high on the Council's agenda we will revisit progress against this for 2019/20 through discussion with officers and review of relevant documents.</p>	<p>As part of our work we have reviewed the work carried out since prior year to assess whether the actions have been undertaken and are effective.</p>	<p>On the basis of the work performed, we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for managing and utilising assets effectively to support the delivery of strategic priorities.</p> <p>We noted however that while the arrangements are in place there is limited delivery as at the time we signed our auditor's report. We recommended further action as noted below, which we will follow up as part of our audit in respect of the year ended 31 March 2021:</p> <p>Further action is needed to:</p> <ul style="list-style-type: none"> • dispose of properties that are not needed • manage FM costs within budget • secure better utilisation of buildings by finalising agreements whereby office space is shared with the Council's partners.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	March 2020
Audit Findings Report	November 2020
Annual Audit Letter	April 2021

Fees

	Planned fees £	Actual fees £	2018/19 fees £
Statutory audit	170,210	198,360	189,428
Audit of subsidiary company Wolverhampton Homes Limited	28,285	28,285	N/A
Audit of subsidiary company City of Wolverhampton Housing Company Limited (trading as WV Living)	22,500	22,500	N/A
Audit of subsidiary company Yoo Recruit Limited (not consolidated on grounds of materiality and not therefore not included in auditor's remuneration note)	14,000	14,000	15,000
Audit of Pension Fund	48,636	55,931	48,618
Total fees	283,631	319,076	253,046

* Audit fee variation – City of Wolverhampton Council

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £145,860 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the table overleaf.

** Audit fee variation – West Midlands Pension fund

The change in planned and actual fees represents an additional fee arising of £7,295 to reflect impact as a result of Covid-19.

A. Reports issued and fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage as well as further issues identified during the course of the audit, which have incurred additional fees. **All fee variations are subject to PSAA approval.**

Audit area	£	Rationale for fee variation
Scale fee	145,860	
Raising the bar	5,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This required additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Materiality	4,000	For major audits, of which the Council is one – we reduced the materiality level, reflecting the higher profile of local audit. This entailed increased scoping and sampling.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	3,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation	4,350	We engaged our own audit expert – (Wilks, Head & Eve) and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
PPE Valuation – work of experts	2,500	We engaged our own audit expert – (Wilks, Head & Eve) to support us in our audit of PPE.
IFRS 16 - Leases	2,500	IFRS 16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset and corresponding liability on the balance sheet. Initially this was from from 1 April 2020 but the standard was later delayed. This reflects our initial work on this standard.
Covid-19 time impact	16,000	The most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working. In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming. To reflect the significance of the additional work required we have proposed an uplift to our fees for 2019/20 of circa 15%.
Technical accounting issues	9,250	As noted on page 7, there was a significant increase between last year's Council Housing valuation and this from £751m to £838m and we incurred significant time over and above what would usually be expected to ascertain the reasons for this movement. The Council subsequently obtained additional valuations, which therefore necessitated additional review.
WV Living	5,400	In order to inform our review of the valuation of inventory in the group accounts or the valuation of the loans made by the Council to its subsidiary, City of Wolverhampton housing Company, WV Living, we engaged internal experts to review the company's business plan.
Revised fee	198,360	

A. Reports issued and fees continued

Fees for non-audit services: City of Wolverhampton Council

Service	Fees £
Audit related services	
- Certification of housing capital receipts grant 2018-19	2,750
- Certification of Teachers Pension Return	4,500
- Certification of Housing Benefit Claim	16,000
Non-Audit related services	
- None	-

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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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services listed herewith are consistent with the group's policy on the allotment of non-audit work to your auditor.




Fees for non-audit services: West Midlands Pension Fund

Service	Fees £
Audit related services	£9,250
- Provision of IAS 19 to auditors of member employers	
Non-Audit related services	£5,000
- Review of the utilisation of Integrated Transport Authority fund	

B. Recommendations – City of Wolverhampton Council

Assessment	Issue and risk	Recommendations
 Medium	<p>Annual Governance Statement</p> <p>The Annual Governance Statement is required to set out the governance arrangements in respect of the group, and not just the Council.</p>	<p>We recommend that management keep its group boundary under review and ensure that future Annual Governance Statements include details in respect of all consolidated entities within the group accounts.</p> <p>Management response</p> <p>Agreed – we will keep our group boundary under review and ensure that this is reflected in future Annual Governance Statements and that they include details in respect of all consolidated entities within the group accounts.</p>
 Medium	<p>Related Parties</p> <p>We discussed with officers during planning, the need to revisit the related parties note as it involved over-disclosure thereby leading to the risk that material and pertinent information was being obscured.</p> <p>There are specific criteria set out in the Code at section 3.9.2, which must be met in order for a related party to be defined as such and the preparation of the related parties note needs to have mind to this guidance.</p>	<p>The related parties note in the financial statements has been revised following audit feedback, and we recommend that the Council enhance its closedown procedures to ensure that only related parties meeting the definitions are considered, and only those transactions deemed to be material with such parties are disclosure.</p> <p>Management response</p> <p>Agreed – this has been taken on board.</p>
 Medium	<p>Valuation process</p> <p>A number of amendments were made as a result of our audit findings in this area.</p>	<p>We recommend that the Council increase the amount of its own quality assurance processes for future years to understanding different methodologies and any significant variances in the valuations, such that any errors are identified and resolved prior to the audit process.</p> <p>Management response</p> <p>The Council undertakes a significant amount of quality assurance work throughout the year, however takes on board the need for enhanced scrutiny, particularly when changing valuers with different methodologies.</p>
 Medium	<p>Additions to Council Dwellings and Other Land and Buildings</p> <p>The valuation reports for these assets did not originally reflect capital expenditure made during the year. Our expectation is that the value of such assets recognised on the Balance Sheet is consistent with the valuation as reported by the Council's external valuer and should include the full population of assets as at the balance sheet date, i.e. including any additions purchased in year.</p>	<p>We recommend that in future the Council seek to inform its valuers of any such changes in year to determine the impact of any on the valuation of assets as at the balance sheet date.</p> <p>Management response</p> <p>Whilst the Council's treatment was in accordance with existing accounting policies already in place, we take onboard the requirement to change going forwards.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice


B. Recommendations – West Midlands Pension Fund

Assessment	Issue and risk	Recommendations
<p>● Medium</p>	<p>Contributions – use of incorrect employer contributions rate by scheme employers</p> <p>During the audit we noted a number of cases where employers used an incorrect Future Service Rate to calculate employer's contributions. In total, employers had applied a lower FSR rate which amounted to a net £150k overpayment of contributions.</p>	<p>Although the impact identified this year was clearly trivial to the financial statements, we feel that this is a control issue which could have a material impact on smaller employers and has the possibility of larger impacts if issues are encountered at one of the Fund's key employers. We recommend that the Fund look into ways of building in controls into UPM which will notify employers of the error at the point of remittance.</p> <p>Management response</p> <p>The Fund has controls in place to identify and highlight all instances where employers may not have applied the Future Service contribution rate as expected. In many cases, the differences are small and not necessarily as result of applying incorrect rates but due to timing differences or payroll adjustments made by employers. Each instance has to be investigated with tolerances applied to assist in resolution and this can lead to a rolling programme of ongoing work.</p>
<p>● Medium</p>	<p>Contributions – reconciliation between notional and cash value of contributions</p> <p>As a result of the option to pre-pay Future and Past Service Contributions, this now results in frequent, substantial year on year variances on contributions receivable which present a challenge to the auditor in assessing completeness of the population.</p>	<p>We recommend that the Fund enhance procedures around reconciling notional contribution values (based on expected values in real time per actual pensionable pay) to actual cash received.</p> <p>Furthermore, 3rd party confirmations from employers should be enhanced to include cash values as well as expected balances per pensionable pay.</p> <p>Management response</p> <p>Where employers have pre paid Future Service contributions in advance, the Fund accounts for the receipts in full in the month in which they were received. As part of its contributions monitoring process, the Fund calculates contributions due for every employer each subsequent month based on expected employer contribution rate multiplied by actual pensionable salary. For employers who have prepaid, this is a notional value and is not included in the reconciliation of contributions due or in the annual accounts. Monthly cash receipts from such employers are in respect of employee contributions only and are reconciled to the member data submitted by employers.</p> <p>The 3rd party request to employers does require confirmation of cash values and expected balances per pensionable pay. The Fund will liaise with employers who have pre paid contributions to ensure correct completion of the confirmations.</p>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

B. Recommendations – West Midlands Pension Fund (continued)

Assessment	Issue and risk	Recommendations
 Best practice	<p>Third party cash balances</p> <p>Audit procedures performed in relation to cash balances identified a small cash balance being held in a Fund bank account (and accounted for using the Fund's General Ledger system) which does not form part of the Fund's financial structure.</p>	<p>We recommend that the Fund sets up a separate bank account and sub ledger accounting system to monitor the cash balance in question.</p> <p>Management response</p> <p>The Fund and City of Wolverhampton Council have completed the application forms required to set up a separate bank account to monitor this balance. The account is expected to be operational from October 2020. Within the Fund's General Ledger system, transactions relating to this balance are allocated to a specific cost centre code to enable monitoring and segregation from Fund transactions. The volume of these transactions is small enough that this structure is a reasonable way to monitor and account for movements on this balance.</p>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice



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CITY OF WOLVERHAMPTON COUNCIL	Audit and Risk Committee 21 June 2021
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Report title	External Audit Plan	
Accountable director	Claire Nye, Director of Finance	
Originating service	Strategic Finance	
Accountable employee(s)	Emma Bland	Finance Business Partner
	Tel	01902 553928
	Email	Emma.Bland2@wolverhampton.gov.uk
Report to be/has been considered by	None	

Recommendations for noting:

The Audit and Risk Committee is asked to note:

1. The Audit Plan 2020-2021 from the Council's external auditors, Grant Thornton.

1.0 Purpose

- 1.1 To update members of the committee on the Audit Plan from the Council's external auditors, Grant Thornton, for the year ended 31 March 2021.

2.0 Background

- 2.1 As outlined in Appendix 1, the audit plan sets out the planned scope and timing of the audit, as required by the International Standard on Auditing (UK and Ireland) 260. The document attached is to help the Audit and Risk Committee understand the planned scope of the external audit work, covering areas of risk, materiality and Value for Money arrangements.

3.0 Financial implications

- 3.1 The following fees are outlined in the audit plan attached. There is a specific budget for these fees within Corporate Financial Management.

Audit fees	2018-2019 £000	2019-2020 £000	2020-2021 £000
Council Audit	158	198	215
Subsidiary audits:			
- Wolverhampton Homes Limited	28	28	28
- City of Wolverhampton Housing Company Limited	20	23	TBC
- Yoo Recruit Limited	14	14	TBC
Total	220	263	TBC

Independence & non-audit services	2018-2019 £000	2019-2020 £000	2020-2021 £000
Total	23	23	23

[EB/10062021/N]

4.0 Legal implications

- 4.1 The legal implications are set out in the audit plan and are in compliance with the Councils' Constitution and all relevant legislation.

[SZ/10062021/P]

5.0 Equalities implications

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

6.0 All other Implications

6.1 There are no other implications arising from this report.

7.0 Schedule of background papers

7.1 There are no preceding reports.

8.0 Appendices

8.1 Audit Plan

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City of Wolverhampton Council audit plan

Year ending 31 March 2021

City of Wolverhampton Council
1 June 2021
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Council developments and impact of Covid 19 pandemic

The Council continues to operate in an uncertain and challenging environment due to the global pandemic, balancing service delivery against the impact on the citizens of Wolverhampton, Council staff and their families. Covid has had, and will continue to have a significant financial impact on the Council. It was recognised by the Council in last year's Narrative Report that the direct financial impact on 2019-20 was limited: the Trust's valuer reported a material uncertainty in regards to the valuation of properties as at 31 March 2020 due to the Covid 19 pandemic.

The Council's 2019-20 Annual Report then went on to say that the pandemic would have a significant impact on 2020-21 and future years across a range of Council's services and programmes. For several years the Council has been reported significant medium-term financial challenges and this has been exacerbated by the pandemic: the Council has suffered loss of operational income, and has had to deal with the allocation, distribution and provision of emergency loans and grants at sometimes relatively short notice, while continuing to provide "business as usual" services such as social care and education.

Financial Reporting and Audit

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing. There is a particular focus on estimates in 2020/21 with the introduction of ISA 540 (revised) [see pages 12 and 13 for more detail], and the Council should anticipate greater challenge and audit scrutiny in these areas.

Accounting for grants

The Government has provided a range of financial support packages throughout the COVID-19 pandemic. These include additional funding to support the cost of services or offset other income losses and also grant packages to be paid out to support local businesses. There is nothing new about the accounting treatment for grants, but the Council needs to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) in 2020/21. There are three main considerations:

- 1) Where the funding is to be transferred to other parties, is the Council acting as the principal or as the agent?
- 2) Are there grant conditions outstanding?
- 3) Is the grant a specific or non-specific grant?

We have shared our publication on grant funding considerations with the Council and discussed it with the finance team who are considering the above factors in their rationale and justification for the accounting treatment to be proposed. It is an evolving area that we will need to react to as the audit progresses.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- There were recommendations made in respect of previous audit work, which can be found in our Audit Findings Repots for the year ended 31 March 2020 both in relation to the financial statements as well as in respect of work on arrangements to secure VFM. We will follow up on these recommendations as part of our work for this year.
- We will continue to provide you with sector updates via our Audit and Risk Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control, refer to page 8.
- The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements due to the size of the numbers involved (£615 million in the balance sheet) and the sensitivity of the estimate to changes in key assumptions. We identified a significant risk in regards to the valuation of the pension fund net liability – refer to page 8.
- The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid 19 pandemic and we expect significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties – refer to page 9.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of the City of Wolverhampton Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Risk Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Risk Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of those subsidiaries it considers material. These are:

- Wolverhampton Homes Limited
- City of Wolverhampton Housing Company Limited (trading as WV Living)

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- presumed risk of management override of controls
- the valuation of property, plant and equipment
- The valuation of the pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £12m (PY £12.5m) for the group and £11.9m (PY £12.4m) for the Council, which equates to approximately 1.35% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £595k (PY £620k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- financial resilience
- group governance

Introduction and headlines

Audit logistics

Our planning and interim “visits” took place remotely throughout January to April and our final visit will take place from June. It is anticipated that this is likely to be remote to some extent though we have discussed the logistics of coming out on site to discuss issues face to face with officers (ensuring all social distancing guidance is adhered to where applicable) as required.

Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor’s Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £215,710 (PY: £198,360) for the Council, subject to the Council delivering a good set of financial statements and working papers. See pages 19 and 20 for further analysis of the proposed fee.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
City of Wolverhampton Council	Yes		<ul style="list-style-type: none"> See pages 7 to 10 where the identified risks pertaining to the Council are detailed 	Full scope audit performed by Grant Thornton UK LLP
Wolverhampton Homes Limited	Yes		<ul style="list-style-type: none"> See pages 7 to 10 where the identified risks pertaining to the Group are detailed 	Audit of one or more classes of transactions, account balances or disclosures namely, in relation not the pension fund net liability to be performed by Grant Thornton UK LLP. The nature, time and extent of our involvement in the work of the separate Grant Thornton team will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the audit documentation and meeting with appropriate members of management.
City of Wolverhampton Housing Company Limited	No		<ul style="list-style-type: none"> See pages 7 to 10 where the identified risks pertaining to the Group are detailed 	Specific scope procedures on inventories to be performed by Grant Thornton UK LLP. The nature, time and extent of our involvement in the work of the separate Grant Thornton team will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the audit documentation and meeting with appropriate members of management.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Risk of fraud in revenue recognition and expenditure	Group and Council	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including City of Wolverhampton and its subsidiaries mean that all forms of fraud are seen as unacceptable. <p>Whilst not a presumed significant risk, we have had regard to Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure may well be greater than that of income. Because of this we have also considered and rebutted the risk of improper recognition of operating expenditure</p>	<p>Notwithstanding that we have rebutted this risk, we will still undertake a significant level of work on the Council's revenue streams, as they are material. We will:</p> <p><u>Accounting policies and systems</u></p> <ul style="list-style-type: none"> • evaluate the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code • update our understanding of the Council's business processes associated with accounting for income <p><u>Fees, charges and other service income</u></p> <ul style="list-style-type: none"> • Agree, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. <p><u>Taxation and non-specific grant income</u></p> <ul style="list-style-type: none"> • Income for national non-domestic rates and council tax is predicable and therefore we will conduct substantive analytical procedures • For other grants we will sample test items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. <p>We will also design tests to address the risk that income has been understated, by not being recognised in the current financial year.</p> <p><u>Expenditure</u></p> <ul style="list-style-type: none"> • update our understanding of the Council's business processes associated with accounting for expenditure • agree, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence <p>We will also design tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year.</p>

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Council	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test high risk unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. We will utilise Grant Thornton's diagnostic IT system, Inflo, as part of these considerations.
Valuation of net pension fund liability	Group and Council	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>We also consider that this risk applies to the group financial statements as in addition to the Council, Wolverhampton Homes Limited are also a member of the Local Government Pension Scheme and therefore include a net defined liability on its balance sheet, which includes significant estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake 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; and • obtain 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 financial statements.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Group and Council	<p>Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. The Council revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We have therefore identified the valuation of land and buildings revaluations and impairments as a risk of special audit consideration.</p> <p>We do not consider this risk to apply to the other components within the group as neither Wolverhampton Homes Limited or City of Wolverhampton Housing Company Limited has land and buildings, which it carries as property, plant and equipment.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management’s processes and assumptions for the calculation of the estimate, the instructions issued to the evaluation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • engage our own valuer to assess the instructions to the Council’s valuer, the Council’s valuer’s report and the assumptions that underpin the valuation • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. <p>As a consequence of the pandemic, whereby the valuer may not have physically observed the assets we will consider how the valuer is assessing for impairment and/or obsolescence in the absence of a physical inspection</p> <p><u>Prior year considerations</u></p> <p>A significant amount of work was undertaken as part of our audit challenge involving a significant amount of time and effort both on our part as well as on the part of the Council’s estates team, finance team and valuer., which resulted in a number of adjusted and unadjusted misstatements being reported. The Council is undertaking an increased amount of its own quality assurance processes for this year and future years such that any errors are identified and resolved prior to the audit process. This includes challenging the valuations as they are received by identifying any unusual year on year movements in order that they are able to understand the reasons for any variances.</p>

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Operating Expenses	Council	<p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses.</p> <p>Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.</p> <p>We are also applying specific focus to the occurrence of expenditure and existence of payables, to mitigate the risk that expenditure has been overstated to take advantage of the additional funding which has been available to the Council during the 2020/21 financial year.</p>	<p>We will</p> <ul style="list-style-type: none"> evaluate the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness gain an understanding of the Council's system for accounting for non-pay expenditure apply elevated risk procedures and test a sample of balances included within trade and other payables test a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period. apply elevated risk procedures and test a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period.
Level 3 Investments – Birmingham Airport	Council	<p>The Council have an investment in Birmingham Airport Holdings (BAHL) that is valued as a Level 3 investment. By their nature Level 3 investment valuations lack observable inputs. This is because these shares are not quoted on a stock exchange and are valued using non-observable data.</p> <p>In order to determine the value, management commission a review to ascertain the valuation of the investment as at the balance sheet date using an earnings based approach. Earnings multiples are based on an average of the lower-quartile earnings and transaction multiples for the industry, in this case, airports.</p> <p>The valuation of the Council's shareholding in Birmingham Airport Holdings Limited therefore represents an estimate by management in the financial statements due to the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.</p>	<p>We will</p> <ul style="list-style-type: none"> evaluate management's process in determining the fair value through use of an expert appoint our own internal experts to review the valuation and appropriateness of the methodology applied consider the reasonableness of the estimate review the adequacy of the disclosure of the estimate in the financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

We identified recommendations in our 2019/20 audit in relation to the Council's estimation process for valuation of land and buildings, which have been discussed on page 9.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Risk Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 (Birmingham Airport) investments
- Valuation of guarantees

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered 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 point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have requested management to provide information as to how estimates are drawn up, above and beyond what is documented in the “informing the audit risk assessment”, which was presented to the Audit and Risk Committee at its last meeting on 8 March. As a separate exercise an Accounting Estimate Management Summary was presented, which set out how the Council had responded to questions raised on their key estimates. To support the understanding of those charged with governance, external experts had been invited to the Committee meeting from Burton Knowles and JLL to discuss the approach taken. The Director of Pensions will be in attendance at the Committee meeting in June to discuss the defined benefit pension liability.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council’s website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.

We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.

We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
- issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 17).

We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiaries. If such a situation arises, we will consider our audit response for the group.

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the group's financial statements, which resulted in 4 recommendations being reported in our 2019/20 Audit Findings Report. We have followed up on the implementation of our recommendations as noted below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	<p>Annual Governance Statement</p> <p>The Annual Governance Statement is required to set out the governance arrangements in respect of the group, and not just the Council. We recommend that management keep its group boundary under review and ensure that future Annual Governance Statements include details in respect of all consolidated entities within the group accounts.</p>	We will keep this recommendation open until such time as we have seen the draft Annual Governance Statement, and concluded on whether this recommendation has been acted upon.
In progress	<p>Related Parties</p> <p>The Council has historically over-disclosed in its related parties note, leading to the risk that material and pertinent information is being obscured. We recommend that the Council enhance its closedown procedures to ensure that only related parties meeting the definitions are considered, and only those transactions deemed to be material with such parties are disclosure</p>	We will keep this recommendation open until such time as we have seen the draft financial statements, and concluded on whether this recommendation has been acted upon.
In progress	<p>Valuation process</p> <p>A number of amendments were made as a result of our audit findings in this area. We recommend that the Council increase the amount of its own quality assurance processes for future years to understand different methodologies and any significant variances in the valuations, such that any errors are identified and resolved prior to the audit progress.</p>	<p>We are aware from discussions with the finance team that challenge and enhanced scrutiny has been undertaken as part of the valuation process.</p> <p>However, we will keep this recommendation open until such time as we have completed our audit work in this area, and concluded on whether this recommendation has been acted upon.</p>
In progress	<p>Additions to Council Dwellings and Other Land and Buildings</p> <p>The valuation reports for these assets did not originally reflect capital expenditure made during the year, meaning the value of such assets recognised on the Balance Sheet was inconsistent with the valuation as reported by the Council's external valuer. We recommend that in future the Council seek to inform its valuers of any such changes in year to determine the impact of any on the valuation of assets as at the balance sheet date.</p>	Comments above apply.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £12.0m (PY £12.5m) for the group and £11.9m (PY £12.4m) for the Council, which equates to approximately 1.35% of your forecast gross expenditure for the year. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

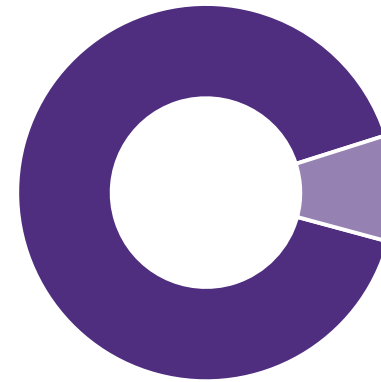
Matters we will report to the Audit and Risk Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Risk Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £595k (PY £620k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Risk Committee to assist it in fulfilling its governance responsibilities.

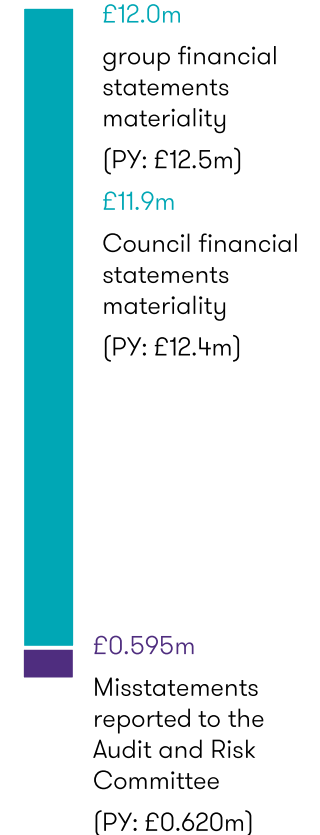
Prior year gross operating costs

£893m group
£884m Council



■ Prior year gross operating costs

Materiality



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



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



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table overleaf.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



Financial sustainability

The Authority has historically managed its finances well, but as noted in "Key Matters" on page 3 for several years the Council has been reported significant medium-term financial challenges and this has been exacerbated by the pandemic: the Council has suffered loss of operational income, and has had to deal with the allocation, distribution and provision of emergency loans and grants at sometimes relatively short notice, while continuing to provide "business as usual" services such as social care and education. As reported to Cabinet on 17 February 2021, that while the budget for 2012-22 is in balance within the use of general reserves, a further £25.4 million needs to be identified for 2022-23 rising to £29.6 million over the medium term in order to address the projected budget deficit.

The Council will need to maintain focus on delivering its budget, and be agile in the face of any continuing impacts of the pandemic.

We will review the Council's Medium Term Financial Statement and financial monitoring reports and assess the assumptions being used and savings being achieved.



Group governance

In our prior year audit findings report we raised a number of recommendations for the Council to consider as part of its ongoing investment in and work with City of Wolverhampton Housing Company Limited.

We are aware that in addition to considering the action required in relation to these recommendations the Council is also heeding the results of the public interest reports that have been issued recently, (Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021), which are the first issued since 2016 [Lessons from recent Public Interest Reports | Grant Thornton](#)).

Along with other weaknesses, the PIRs have drawn attention to failings in the governance arrangements where subsidiaries and associated entities are involved as well as a lack of understanding of how to manage financial and commercial uncertainty and risk in the medium to long term.

We will follow up action taken by the Council in response to the recommendations made as well as assessing the governance arrangements in its place with its associated entities.

Risks of significant VFM weaknesses

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

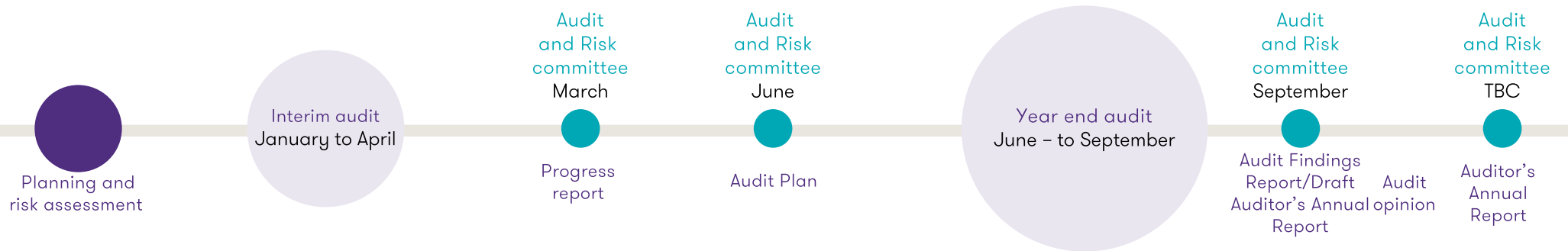
The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



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

Audit logistics and team



Jon Roberts, Key Audit Partner

Key contact for senior management and Audit and Risk Committee. Jon will oversee the implementation and delivery of the audit and be the key contract for senior management and the Audit and Risk Committee. He will meet with the Council's senior management including the Director of Finance to help identify risks for the audit and provide advice and assistance as required.

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Nic Coombe, Audit Manager

Nic will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. She will attend Audit and Risk Committees with Jon, and supervise Matt in leading the audit team. Nic will undertake reviews of the team's work and draft clear, concise and understandable reports.



Matthew Berrisford, Audit Incharge

Matt will be responsible for the "on-site" audit team management and will be the day-to-day point of contact for the finance team. He will be responsible for ensuring the audit fieldwork is complete.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a body not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a body not meeting its obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for City of Wolverhampton Council to begin with effect from 2018/19. The scale fee for 2018/19 was set by PSAA at £145,860. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 17, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £26,000. This is in line with increases we are proposing at all our local audits. Members may be aware that MHCLG is currently responding to the findings of the Redmond Review into local audit. As part of this, Government has recognised the need to provide additional funding to local authorities to support increases in audit fees.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
City of Wolverhampton Council Audit	£158,360	£198,360	£215,710
Audit of subsidiary company Wolverhampton Homes Limited	£27,675	£28,285	£28,285
Audit of subsidiary company City of Wolverhampton Housing Company Limited	£20,000	£22,500	TBC
Audit of subsidiary company Yoo Recruit Limited	£13,500	£14,000	TBC
Total audit fees (excluding VAT)	£219,535	£263,145	TBC

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£145,860
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£9,000
Enhanced audit procedures for Property, Plant and Equipment	£9,350
Enhanced audit procedures for Pensions	£3,500
Recurring element of 2019/20 fee	£167,710
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised ISAs	£17,000
Local risk factors	£5,000
<i>Proposed increase to agreed recurring 2019/20 fee</i>	£48,000
Total audit fees (excluding VAT)	£215,710

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

* Note that all fees noted are those charged in respect of 2019-20 as the equivalent fees for 2020-21 are yet to be determined.







There are no non-audit related services identified.

Service	Fees £ *	Threats	Safeguards
Audit related			
Certification of Housing Capital receipts grant	2,750	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of £251,710 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers Pension Return	4,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of £251,710 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit Claim	16,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of £251,710 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.







Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance




The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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