Wolverhampton City Council

External Audit Progress Report 2014/15

June 2015

Contents

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive/Managing Director of each audited body and on the Audit Commission's website. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to directors or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any director or officer in their individual capacity or to any third party.

Section 1: Introduction and Executive Summary

This is our first report since the new Committee was formed after the elections in May. For that reason we attach the original plan so that we can present you with a full picture of our work on the 2014/5 accounts, which are presented in draft also to this meeting.

Preparatory work took place during our interim visit in April. Now we have the draft accounts, substantive work on them starts, with our team on site in August.

Audit progress

Our interim audit took place during April 2015. The purpose of our interim visit was to:

1. Update our **assessment of risk** (as documented within our Audit Plan presented to you in March 2015) through discussing audit risks and mitigating controls with management. *This ensures a robust and properly targeted audit approach to provide the assurances needed over specific balances and risks.*

2. Understand, evaluate, and – where effective and efficient to do so – validate **key controls** operating around the Council's key business cycles. *Reviewing the design and operation of controls informs our risk assessment process and impacts on the nature and extent of substantive testing that we undertake.*

3. Undertake early **substantive testing** in specific areas. *Completing early detailed work enables prompt identification of issues and reduces pressure on the year end audit process.*

The key messages from our work to date are as follows:

Audit Area	RAG	Comments
Risk based audit work (per Audit Plan)	● (A)	• Our interim audit fieldwork took place as planned. • Our work has been carried out with the help and support from the Finance Team and Internal Audit. • We reviewed the work performed by Internal Audit. • The Payroll report was still at draft stage during our interim visit. We noted that several issues had been raised at that stage. We received the final report just recently and have raised a few queries with internal audit. We will update the Committee on progress with this at the meeting. • We sent out bank and investment confirmations requests and expect to receive these back in advance of our final audit visit. • We intended to carry out early work on the valuation of property, plant and equipment, but the internal valuation report was not ready at the time of our visit. We will instead carry out the work during our final audit visit.
Value for money (VfM) work	● (A)	• We gathered the data required to benchmark your key assumptions as contained in your MTFS (such as inflation, growth pressures, council tax and efficiency savings), and will provide a separate report to the Committee in September 2015. • We met regularly with the Section 151 Officer and the Managing Director to discuss the Council's financial position and understand the plans and arrangements in place, during the year to 31 March 2015, for securing balanced budgets and addressing the financial shortfall identified. We reviewed in-year finance reports and placed reliance on the internal audit review of budgetary control (through successful re-

		performance of their work) which underpins your arrangements and our assessments. • We will review the outturn position and entries in the financial statements to consider whether those arrangements have delivered during the year and will continue to review the Council's financial position and achievement of savings.
Information Technology (IT) Controls	(G)	• Our IT specialists are finalising their review of your general IT control environment on the key financial systems that were used during 2014/15. • Their work has focussed on access, program changes, and system and security settings within Agresso, Northgate and Care First systems. • Pending the successful completion of our colleagues' work, we will update the Audit Committee.
Internal Audit	(G)	• We reviewed internal audit's work on key financial systems and assured ourselves as to the quality of their work. • We were provided with working papers and associated reports on a timely basis. • We carried out re-performance of their work and concluded that we can place reliance on the work internal audit have performed.

Key

Red - significant improvements required

Amber - some improvements required

Green – no, or some, minor improvements required

In the next sections of this report we set out in further detail our progress in delivering our plans.

Section 2: Audit Plan Risk Update

Update on risks and work undertaken – Financial Statements

In our Audit Plan (presented to the Audit Committee on 9 March 2015) we identified a number of risks facing you as an organisation. We set out below our progress in responding to the risks we identified:

Risk	Progress and issues noted	Remaining action
Management override of controls Significant risk ● ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls in order to manipulate the financial statements. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	We have considered the design and operating effectiveness of key controls specifically relating to the process for raising and approving journals as well as budgetary control. We are also in the process of finalising the following specific work relating to IT: • detailed testing of financially significant IT systems which underpin the Council's accounts; and • testing financial system access controls. Based on our work to date: • we have identified no significant or material weaknesses; and • there are no issues that should impact on our planned audit approach.	We will undertake final accounts audit procedures including: • testing the appropriateness of manual journal entries and other adjustments; • reviewing accounting estimates for biases; • evaluating the business rationale underlying significant transactions; • testing exceptional and unusual items highlighted by the Council's bank account (and other) reconciliations; and • performing unpredictable procedures.
Risk of fraud in revenue and expenditure recognition Significant risk ● Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government. There is a risk that the Authority could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue	We have: • reviewed the work of internal audit relating to income, debtors, expenditure and creditors business processes; and • considered the design and operating effectiveness of key controls operating in each of these processes. Substantive testing is to be completed during our final accounts audit. Based on our work to date:	As part of our final accounts audit we will perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk. Our testing will include procedures in relation to: • the appropriateness of journal entries and other adjustments;

position.		• we have identified no significant or material weaknesses; and • there are no issues that should impact on our planned audit approach.	• the accounting treatments adopted and transactions processed for specific government grants; • income and expenditure cut off; and • reviewing the accounting estimates for income, expenditure, deferred revenues and provisions.
Property, Plant and Equipment Valuation Significant risk ● Property, Plant and Equipment is the largest figure on your Balance Sheet. You value your properties at fair value using a range of assumptions and the advice of internal and external experts. During the 2013/14 audit process we identified that out-of-date or unsupported base data had been used in the valuation of some assets, specifically gross internal floor areas and land acreage. You were tasked with obtaining new measured surveys for a number of assets to support your records. Specific areas of risk for 2014/15 therefore include: • asset valuation base data may be inaccurate or incomplete; • valuation assumptions used may not be appropriate; and • asset fair values may fluctuate materially between the revaluation date and the financial year end and may not be appropriately reflected	▶	We held discussions with the finance team to understand the approach to revaluing the Council's estate in 2014/15. We engaged our internal valuation specialists to ensure appropriate input into the process. At the time of our interim audit, the Council's valuation report was not yet complete. Therefore, the majority of our audit procedures will be performed during our year end visit. We have also requested that management perform an assessment of the carrying value of those assets that were not revalued in the 2014/15 financial year to confirm whether their carrying value continues to remain materially in line with their fair value. We understand this paper has been drafted and will be shared with us in due course.	As part of our final accounts audit we will: • review and validate the key judgements and assumptions; • complete our review of supporting data used; and • assess the reasonableness of any estimation techniques applied. Where assets are not re-valued in year we will discuss with you the steps you have taken to ensure that your balance sheet is materially accurate at the year end. In respect of Academy schools and Voluntary Aided (VA) schools, we will review the accounting treatment and corresponding valuation of the schools.
Minimum Revenue Provision Significant risk ● Councils are required to make provision through the revenue account for the repayment of long-term external borrowing and credit arrangements.		The Statutory Guidance is that each local authority should determine 'an amount it considers prudent'. As external auditors our responsibilities with regard to MRP are limited to:	During our final audit we will audit the MRP accounting entries made in the 2014/15 Statement of Accounts (including nil entries) to ensure that they are

The Statutory Guidance - '*Capital Finance Guidance on Minimum Revenue Provision (MRP)' ("The Guidance")* – requires a local authority to '*determine for the current financial year an amount of minimum revenue provision which it considers to be prudent'*. Since 2008 the Council has adopted one of the ready-made options from The Guidance: the 'straight line method'. During 2014/15 the Council has made two changes to that approach and, in February 2015, presented a new MRP Policy to Cabinet for adoption during 2014/15 and 2015/16. The revised policy will be presented to Full Council in March 2015 for approval. The new policy comprises two in-year changes: *Change 1* A switch from the 'straight line method' as adapted by the Council to the 'annuity method' - another of the options in The Guidance - as adapted by the Council. The Director of Finance (Section 151 Officer) considers this method to be both more prudent and fairer than the previous method. *Change 2* Having concluded that the new method is more prudent and fairer than the previous method, the Council has identified that adopting the old policy has led to MRP charges that were overly prudent during the period from 1 April 2008 to 31 March 2014 which has resulted in a cumulative charge at 31 March 2014 that is in excess of what the Council considers prudent and fair under the new method. The Council proposes an adjustment within the MRP policy for 2014/15 and subsequent years to recognise the over-prudent sum of around £37 million. Under the proposals MRP will continue to be calculated on an annuity basis, but as if the annuity basis had been applied from 1 April 2008, so that it will be reduced by the adjustment, anticipated to cover a period of four to five financial years. MRP using the annuity method is in the order of £7 million in 2014/15 and is projected to increase in subsequent years due to the Council's capital expenditure plans. Given the significance of the values		1. Legal considerations - to ensure that an illegal act contrary to statutory guidance does not occur; and then to 2. Accounting considerations - to ensure that any accounting entry (including a nil entry) does not lead to a material misstatement in the accounts. *Change 1* In considering change 1 we: • understood and reviewed the change from straight line to annuity method and concluded that it is not inconsistent with The Guidance. Both methods are approved by CIPFA guidance and the Section 151 Officer has assessed that the annuity basis produced a prudent provision built up in a profile which reflected the profile of economic benefits produced by the assets/borrowing; • observed that the policy has been approved by Council during the year and will apply from 1 April 2014; and • understood the likely accounting impact in the 2014/15 accounts and beyond. We are not minded to challenge the Council's proposal because: 1) The arrangements do not comprise an illegal act. 2) On the basis of draft calculations provided by Officers, and on the basis of our planned materiality level for our audit of the financial statements, we do not expect the 2014/15 accounting entries resulting from the revised policy to be materially different to those that would have been	consistent with the provisional calculations initially provided by Officers. Should we identify any audit issues we would report these to the Audit Committee on a timely basis as we would any audit issue.

involved and the statutory nature of the requirement to determine a prudent provision there is an inherent risk that the Council sets a provision that is non-compliant with the statutory guidance or is materially wrong		produced by following the previous policy. *Change 2* In considering change 2 we: • understood the Council's proposals to introduce an adjustment within the MRP policy for 2014/15 and subsequent years to recognise the over-prudent sum of around £37 million spread over a number of years; • reviewed the legal opinion that has been obtained from Counsel supporting the legality of the Council's proposals and • assessed the advice provided by Counsel to determine whether we could place reliance on the advice. We are not minded to challenge the Council's proposal because: 1) The revised policy does not comprise an illegal act, based on the legal advice provided by the Council. 2) On the basis of evidence provided by Officers, and on the basis of our planned materiality level for our audit of the financial statements we do not expect the 2014/15 accounting entries resulting from the revised policy to be materially different to those that would have been produced by following the previous policy.	
Provision for Equal Pay Elevated risk ● As in previous years, the Authority is expected to include a provision in the accounts to reflect its liability for Equal Pay and back pay claims. Over the last six years the Authority has received notification of employment tribunal claims against the Authority	▶	The S151 Officer has kept us updated on developments regarding the Council's work to settle its outstanding equal pay liabilities. We have reviewed the Council's draft accounting policies with respect to the recognition of related expenditure and the	We will review the Equal Pay provision in the Statement of Accounts and receive an update from the Finance Director regarding the rationale behind the value of the provision.

alleging breach of Equal Pay legislation. The Authority has engaged Solicitors to provide legal advice and conduct proceedings on behalf of the Authority in relation to these claims. On the basis of the advice provided and the information available the Authority concluded on what it felt was the most probable liability as at 31 March 2014. That provision figure reflected known claims as well as other potential claims. We will consider the adequacy of any equivalent provision as at 31 March 2015 and review payments made during the year.	measurement and valuation of related liabilities, and have no concerns to report.	We will perform final accounts audit procedures including: • testing related payments, journal entries and other adjustments in the financial statements to ensure material accuracy and compliance with accounting standards; • seeking confirmation from the Council's legal advisors; and • review and challenge of assumptions made by the Council regarding relevant case law and the associated implications for the Council's provision.
Implementation of Agresso Elevated risk ● From 1 April 2014 the Finance, Procurement and elements of HR system went live on Agresso. Payroll and the remaining elements of HR went live later in the year. Agresso is integrated to 18 systems including Northgate Revenues and Benefits and Housing amongst others. 43 system interfaces have also been implemented. 2014/15 will be the first year the Statement of Accounts will be prepared from Agresso. As a result of these changes, both the way in which we will obtain audit evidence and the ability to rely on your automated processes and controls will be impacted. We are also aware that there have been some challenges faced during the implementation including payroll and creditor payments. This has included: - The dual running of payroll on both the pre-existing Mainframe	The audit team, along with our IT specialists, met with a number of individuals involved in managing Agresso to understand how the new system interfaces with the other key financial systems as well as the key reports that are generated for the purposes of financial reporting. We undertook walk-through testing for individual transactions to confirm what automated controls had been built into the new system. We carried out validation tests on the trial balance and identified no issues. Our IT specialists are finalising our review of your general IT control environment on Agresso. Their work has focussed on access, program changes, and system and security settings	We will finalise our IT general controls audit work and feedback any findings in our next report to the Audit Committee. We will carry out tests on the accuracy and completeness of payroll data within Agresso during the first part of the year when the dual-running of the old and new systems was taking place. We will review the creditors balance as at the year end and where payments are significantly delayed we will investigate the steps taken to clear the backlog as well as the impact of these delays.

system and Agresso for several months, and - A backlog of payments. In response to these challenges we will perform additional audit procedures over payroll and creditors.		within the system.	

Update on risks – Other Audit Code responsibilities

Risk	Progress and issues noted	Remaining action
The Medium Term Financial Strategy (MTFS) and savings requirements The Authority's February 2015 MTFS set out the significant financial challenge being faced over the next five years. Key points noted include: • The outstanding projected budget challenge stands at £46.3m over the period to 2018/19 and there is an assumed budget deficit of £14.8 million for 2016/17. • £46m of savings are required to be identified for the period 2018/09, of which £20m is the target for 2016/17. • All figures above assume the successful achievement of prior year savings proposals amounting to £36 million over the four year period to 2018/19. • The budget pressure has increased by £5.7 million since the previous budget report to Cabinet as a result of demand pressures relating to Looked After Children and Children's Social Workers. All figures above already incorporate the introduction of changes to the Council's Minimum Revenue Provision (MRP) Policy which would generate significant budget savings from 2014/15 through to 2017/18. The audit risk associated with this policy change is set out in more detail above. It is acknowledged that the financial challenge must be addressed as a matter of urgency. There are a number of significant risks associated with the MTFS including: • The uncertainty about how much funding will be received from Government; • Identified savings options may not be achieved; • Further efficiency savings may not be identified; • Spending may exceed budgets and/or income may fall short of budgets;	We gathered the data required to benchmark your key assumptions as contained in your MTFS (such as inflation, growth pressures, council tax and efficiency savings). We met regularly with the Section 151 Officer and the Managing Director to discuss the Council's financial position and understand the plans and arrangements in place, during the year to 31 March 2015, for securing balanced budgets and addressing the financial shortfall identified. We reviewed in-year finance reports to identify progress in the delivery of in-year savings plans and progress towards developing your medium term financial plans. The robustness of savings plans and response to the projected funding gap significantly factors into our assessment of whether the Council is able to demonstrate financial resilience. We have, therefore, tested a sample of savings plans developed in year and the risk assessments supporting them to: • challenge the process that the Council has applied to developing them; • determine whether management's risk assessment regarding the achievability of plans is robust; and • consider the arrangements that are in place to ensure they are achieved. We have placed reliance on the internal audit review of budgetary control which underpins your	At present we have not identified specific significant concerns regarding whether the Council has, in all significant respects, put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015. We will complete our benchmarking exercise and analysis and report our benchmark findings to the Section 151 Officer and the Audit Committee. We will consider the findings of our detailed year-end testing on the Council's estimates, provisions and journals undertaken as part of our final accounts work, including those impacted by new accounting rules. If any of these findings have a significant impact upon the Council's financial plans we will feedback our findings to you. We will complete our testing of a sample of the most significant savings plans for 2015/16, 2016/17 and beyond. We will continue to meet regularly with the Section 151 Officer to discuss the Council's financial position, plans and receive updates to

Risk	Progress and issues noted	Remaining action
• The impact of the current economic climate, including increased inflationary pressures and interest rate changes; • Demand for services may exceed estimates; and • Future finance settlements may vary from current assumptions. Effectively managing these risks is critical to the Authority's future financial resilience. Consideration of this area will therefore form a key part of our assessment on your arrangements for securing economy, efficiency and effectiveness in the use of Authority resources. We need to be satisfied that the Authority can demonstrate financial resilience over the medium term as well as ensuring that planned expenditure of the Authority in a financial year is not likely to exceed the resources (including sums borrowed) available to it. This looks particularly challenging for 2016/17.	arrangements and our assessments. We have requested the provision of a range of detailed information to inform our conclusion on your arrangements for securing financial resilience and will review the outturn position and entries in the financial statements to consider whether those arrangements have delivered during the year. We have shared a list of the Audit Commission's 'indicators' of failing to achieve value for money and asked for supporting evidence for areas of higher assessed risk, such as the substance of savings plans in the budget and MTFS. It should be noted that these indicators focus on the 'arrangements' for achieving value for money as well as the resulting outcomes that those arrangements have.	the savings programme and budget risk assessment. Although our assessment is focussed on arrangements in place during the year to 31 March 2015 we will continue to monitor this assessment up to the point of issuing our Value for Money (VFM) conclusion at the end of September.

Preparation for the year-end audit

You expect to submit your draft accounts within the required timescales provide us with copies of the draft statements on 30 June 2015.

We have discussed with management a proposed timetable for the final accounts audit. This includes activities to be undertaken prior to our audit commencing, including:

- completion of our IT audit work around the key financial system; and
- initial sample selection for specific areas of our substantive testing.

Section 3: Non-Audit services

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Council that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

We set out the relationships that existed at the time of drafting our Audit Plan in March 2015 and in September we will provide Members with a full and final update regarding our non-audit services and fees along with the safeguards that we put in place to ensure we maintained our independence.

In addition to the statutory services provided as your Appointed Auditor and those services highlighted in our Audit Plan PwC has provided non-audit services which fell outside of the Code of Audit Practice. These services are summarised in the section below.

We hereby confirm that in our professional judgement, as at the date of this document:

- **we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and**
- **our objectivity is not compromised.**

Non audit services

1) In May 2015 we were asked to provide a tax helpline to respond to ad hoc queries on a range of tax issues. The annual fee for this service is expected to be £2,000 + VAT. This work will take place after the financial year-end.

2) In April 2015 we were asked to provide support to the Director of Finance in undertaking financial modelling and risk analysis on the Council's HRA. The fee for this service is expected to be £10,000 + VAT. This work will take place after the financial year-end.

3) In February 2015 we were asked to provide support to the 7 wave 1 councils exploring a West Midlands Combined Authority (CA) as they develop proposals for the CA. Wolverhampton City Council is the commissioning authority for this work which is why we draw it to your attention here but our responsibilities are to the Councils of the Combined Authority. Wolverhampton's share of the total fee is expected to be £8,571.40. This work will take place after the financial year-end and supplement the pro-bono support provided in the last quarter of FY15 assisting in the project management of the investigation in to the creation of the CA. There may be additional work to complete our support to the CA and we will inform you of this should this arise whilst we remain your Appointed Auditor.

Section 4: Recent Publications

As part of our regular reporting to you we plan to keep you up to date with the emerging thought leadership we publish.

The PwC Public Sector Research Centre

The PwC Public Sector Research Centre (PSRC) produces a range of research and is a leading centre for insights, opinion and research on best practice in government and the public sector. The PSRC can be found at *http://www.pwc.com/gx/en/psrc/*

Recent publications by the PSRC include:

Decentralisation Decade report: a plan for economic prosperity, public service transformation and democratic renewal

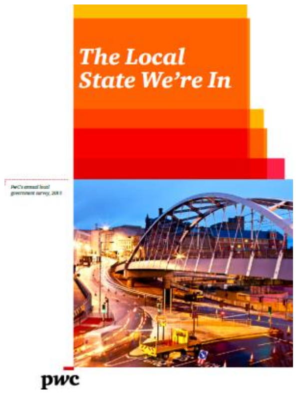
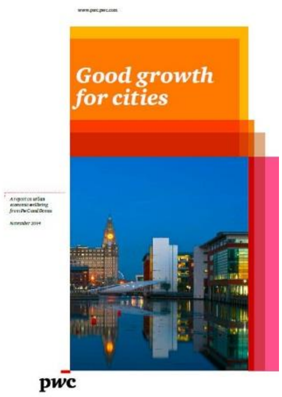
Decentralisation is firmly in the sights of politicians nationally and locally, but is the tide in favour of decentralisation strong enough to make change substantial and irreversible?

IPPR's report 'The Decentralisation Decade', which we have supported, sets out the prospects and priorities for decentralisation in England over the next 10 years.

Decentralisation Decade sets out five broad principles for decentralisation in England:

- **Decentralisation must be for a broad and clear purpose.** Decentralisation is not an end in itself, but a means to achieve improved outcomes in terms of good growth and public services.
- **Decentralisation must be joined-up.** A coherent and co-ordinated approach is needed across different departments, at different spatial scales and between a wide range of public, private and voluntary actors and enthusiastic citizens too.
- **Decentralisation needs to be asymmetrical.** A multi-speed approach to decentralisation is the way ahead, driven by those areas with the appetite to take on additional powers and responsibilities.
- **Decentralisation needs time.** A decade of decentralisation is needed to make the adaptations necessary, develop local capacity and embed a culture of decentralisation.
- **Decentralisation needs cross-party support.** To make a genuine shift in power from the central to the local level requires engagement from across the political spectrum, with national and local governments work in unison rather than in conflict over the long term.

http://www.pwc.com/gx/en/psrc/united-kingdom/decentralization-decade-report-ippr.jhtml

Local State We're In 2015 - Our annual temperature check of local government Our fifth annual survey of local government leaders and chief executives highlights the big challenges and big opportunities confronting local government in 2015 and beyond. Councils need to embrace the opportunities that digital, data and decentralisation offer to redefine their role and purpose. http://www.pwc.co.uk/government-public-sector/local-government/publications/local-state-were-in/index.jhtml	
Good Growth for Cities The economic outlook has improved, but there is some way to go until the recovery is sustainable – and the public finances still need to be repaired. And in the wake of the Scottish Referendum, there is heightened attention on future decentralisation to help unleash the economic potential of all parts of the UK. This is our 3rd Good Growth for Cities report where we measure the performance of the UK's largest cities against a basket of ten categories defined by the public and business as a key to economic success and wellbeing. This year, we've also looked back to before the recession, to compare how cities have fared since, and what this means for long term policy and decision making across UK cities http://www.pwc.com/gx/en/psrc/united-kingdom/good-growth-for-cities.jhtml	

PwC's Local Government blog

Our blog explores the most pressing challenges being faced in the public sector today and beyond.

You can follow the blog at http://pwc.blogs.com/publicsectormatters/local-government

www.pwc.co.uk

Wolverhampton City Council

External Audit Plan 2014/15

Government and
Public Sector

March 2015

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive [or Managing Director] of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Contents

Executive summary

Background

This audit plan informs the Audit Committee of Wolverhampton City Council (the 'Authority') about our responsibilities as external auditors and how we plan to discharge them for the audit of the financial year ending 31 March 2015.

We will prepare a separate audit plan for our work on the West Midlands Pension Fund Annual Report and Accounts. This and other matters relating to the pension fund audit will be presented to those charged with governance for the pension fund, as well as to the officers and Councillors of this committee.

Framework for our audit

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

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

We look forward to discussing our report with you on 9 March 2015.

Our Responsibilities

Our responsibilities are as follows:

Perform an audit of the accounts and pension fund accounting statements in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).

Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.

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

Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.

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

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

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Our audit engagement begins with an evaluation of the Authority on our 'acceptance & continuance database' which highlights an overall engagement risk score and highlights areas of heightened risk.

Audit approach

Our audit is risk based which means that we focus on the areas that matter. We have carried out a risk assessment for 2014/15 prior to considering the impact of controls, as required by auditing standards, which also draws on our understanding of your business.

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

●	**Significant**	**Those risks with the highest potential for material misstatement due to a combination of their size, nature and likelihood and which, in our judgement, require specific audit consideration.**
●	Elevated	Although not considered significant, the nature of the balance/area requires specific consideration.
●	**Normal**	**We perform standard audit procedures to address normal risks in all other material financial statement line items.**

1.

The table below highlights all risks which we consider to be either significant or elevated in relation to our audit for the year ended 31 March 2015.

Auditing Standards require us to consider two fraud risks as significant:

- Management override of controls:

  "Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk." ISA 240 paragraph 31; and

- Revenue recognition (there is a rebuttable presumption that this is a significant risk):

"When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions given rise to such risks." ISA 240 paragraph 26.

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

A summary of the significant and elevated audit risks identified for 2014/15 is set out below, split by the element of our audit opinion (Accounts or Value for Money opinion) to which each risk relates.

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

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

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

Financial Statements Risks

Risk	Categorisation	Audit approach
Management override of controls ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls in order to manipulate the financial statements. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	Significant ●	As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. We will consider the level of assurance provided by Internal Audit regarding management's ability to override controls. We will perform procedures to: • Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; • Test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus; • Review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension assumptions, valuation and impairment assumptions); • Evaluate the business rationale underlying significant transactions outside the normal course of business; • Test exceptional and unusual items arising from bank and other reconciliations; and • Perform 'unpredictable' procedures targeted on fraud risks. We may perform other audit procedures if necessary.

Risk	Categorisation	Audit approach
Risk of fraud in revenue and expenditure recognition Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government. There is a risk that the Authority could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue and expenditure position.	Significant ●	We will obtain an understanding of revenue and expenditure controls and will seek to place reliance on internal audit work, where most efficient to do so. We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting. We will also perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk including procedures in relation to: • The appropriateness of journal entries and other adjustments; • Income and expenditure 'cut off'; and • Accounting estimates and judgements made for income and expenditure (e.g.: accruals, deferred income and provisions).

Risk	Categorisation	Audit approach
Property, Plant and Equipment Valuation Property, Plant and Equipment is the largest figure on your Balance Sheet. You value your properties at fair value using a range of assumptions and the advice of internal and external experts. During the 2013/14 audit process we identified that out-of-date or unsupported base data had been used in the valuation of some assets, specifically gross internal floor areas and land acreage. You were tasked with obtaining new measured surveys for a number of assets to support your records. Specific areas of risk for 2014/15 therefore include: • asset valuation base data may be inaccurate or incomplete; • valuation assumptions used may not be appropriate; and • asset fair values may fluctuate materially between the revaluation date and the financial year end and may not be appropriately reflected in the accounts.	Significant ●	We will review the basis of any asset revaluations undertaken and in doing so consider: • the judgements, assumptions and data used; • the reasonableness of any estimation techniques applied; and • the expertise of your valuation experts. We will consider the Authority's response to control recommendations made in the previous year and will validate base data to underlying records. Where assets are not re-valued in year we will understand the steps taken to ensure that your balance sheet is materially accurate at the year end. In particular, it is noted that the Code of Practice has been expanded and now explicitly states that '*where assets are re-valued (i.e. the carrying amount is based on fair value), revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.*'
Minimum Revenue Provision Councils are required to make provision through the revenue account for the repayment of long-term external borrowing and credit arrangements. The Statutory Guidance - '*Capital Finance Guidance on Minimum Revenue Provision*	Significant ●	At the time of drafting this report our work on both amendments is ongoing. We have understood and reviewed the change from straight line to annuity method and concluded that the policy appears reasonable in principle and is not inconsistent with The Guidance. The policy has been approved by Full

Risk	Categorisation	Audit approach
(MRP)' ("The Guidance") – requires a local authority to *'determine for the current financial year an amount of minimum revenue provision which it considers to be prudent'*. Since 2008 the Council has adopted one of the ready-made options from The Guidance: the 'straight line method'. During 2014/15 the Council has made two changes to that approach and, in February 2015, presented a new MRP Policy to Cabinet for adoption during 2014/15 and 2015/16. The revised policy will be presented to Full Council in March 2015 for approval. The new policy comprises two in-year changes: 1) A switch from the 'straight line method' as adapted by the Council to the 'annuity method' - another of the options in The Guidance - as adapted by the Council. The Director of Finance (Section 151 Officer) considers this method to be both more prudent and fairer than the previous method. 2) Having concluded that the new method is more prudent and fairer than the previous method, the Council has identified that adopting the old policy has led to MRP charges that were overly prudent during the period from 1 April 2008 to 31 March 2014 which has resulted in a cumulative charge at 31 March 2014 that is in excess of what the Council considers prudent and fair under the		Council during the year and will apply from 1 April 2014. We have understood and reviewed the Council's proposals to introduce an adjustment within the MRP policy for 2014/15 and subsequent years to recognise the over-prudent sum of around £37 million. We have reviewed the legal opinion that has been obtained from Leading Counsel and have consulted with our regulator on the legality and appropriateness of the proposals. Before the year-end we will determine whether the proposals represent a breach of the Council's statutory obligations or whether the subsequent accounting entries are likely to result in a materially inaccurate provision. During our fieldwork we will audit the resulting accounting entries in the 2014/15 Statement of Accounts. We will report all findings to the Audit Committee on a timely basis.

Risk	Categorisation	Audit approach
new method. The Council proposes an adjustment within the MRP policy for 2014/15 and subsequent years to recognise the over-prudent sum of around £37 million. Under the proposals MRP will continue to be calculated on an annuity basis, but as if the annuity basis had been applied from 1 April 2008, so that it will be reduced by the adjustment, anticipated to cover a period of four to five financial years. MRP using the annuity method is in the order of £7 million in 2014/15 and is projected to increase in subsequent years due to the Council's capital expenditure plans. Given the significance of the values involved and the statutory nature of the requirement to determine a prudent provision there is an inherent risk that the Council sets a provision that is non-compliant with the statutory guidance or is materially wrong		

Risk	Categorisation	Audit approach
Implementation of Agresso From 1 April 2014 the Finance, Procurement and elements of HR system went live on Agresso. Payroll and the remaining elements of HR went live later in the year. Agresso is integrated to 18 systems including Northgate Revenues and Benefits and Housing amongst others. 43 system interfaces have also been implemented. 2014/15 will be the first year the Statement of Accounts will be prepared from Agresso. As a result of these changes, both the way in which we will obtain audit evidence and the ability to rely on your automated processes and controls will be impacted. We are also aware that there have been some challenges faced during the implementation including payroll and creditor payments. This has included: - The dual running of payroll on both the pre-existing Mainframe system and Agresso for several months, and - A backlog of payments. In response to these challenges we will perform additional audit procedures over payroll and creditors.	Elevated ●	We will obtain a comprehensive understanding of the automated processes and controls within Agresso to aid the development of our testing approach. We will understand and test the reliability of reports generated from Agresso that we plan to use for the audit. We will understand, evaluate and validate that controls within Agresso are operating effectively in the following domains: • Data transfer from the old to new ledger system; • Access control; • Computer operations; and • Change management. We will review the payroll reconciliation between the Mainframe and Agresso systems to check that all payroll data has been accounted for completely and correctly throughout the year. We will review the aged creditors listing and consider the financial implication of the backlog of creditor payments. We will perform additional work over the year end creditors balance, in particular the completeness and accuracy of accruals.

Risk	Categorisation	Audit approach
Provision for Equal Pay As in previous years, the Authority is expected to include a provision in the accounts to reflect its liability for Equal Pay and back pay claims. Over the last six years the Authority has received notification of employment tribunal claims against the Authority alleging breach of Equal Pay legislation. The Authority has engaged Solicitors to provide legal advice and conduct proceedings on behalf of the Authority in relation to these claims. On the basis of the advice provided and the information available the Authority concluded on what it felt was the most probable liability as at 31 March 2014. That provision figure reflected known claims as well as other potential claims. We will consider the adequacy of any equivalent provision as at 31 March 2015 and review payments made during the year.	Elevated ●	We will evaluate the accounting policies for recognising associated expenditure and liabilities. We will test whether payments, journal entries and other adjustments in the financial statements relating to Equal Pay are materially accurate and whether they meet relevant financial reporting standards. We will seek confirmation on these matters from the Authority's legal advisors. We will review and challenge assumptions made by the Authority regarding relevant case law and the associated implications for the Authority's provision.

Other Audit Code Responsibilities Risks

Risk	Audit approach
The Medium Term Financial Strategy (MTFS) and savings requirements The Authority's February 2015 MTFS sets out the significant financial challenge being faced over the next five years. Key points noted include: • The outstanding projected budget challenge stands at £46.3m over the period to 2018/19 and there is an assumed budget deficit of £14.8 million for 2016/17. • £46m of savings are required to be identified for the period 2018/09, of which £20m is the target for 2016/17. • All figures above assume the successful achievement of prior year savings proposals amounting to £36 million over the four year period to 2018/19. • The budget pressure has increased by £5.7 million since the previous budget report to Cabinet as a result of demand pressures relating to Looked After Children and Children's Social Workers. All figures above already incorporate the introduction of changes to the Council's Minimum Revenue Provision (MRP) Policy which would generate significant budget savings from 2014/15 through to 2017/18. The audit risk associated with this policy change is set out in more detail above. It is acknowledged that the financial challenge must be addressed as a matter of urgency. There are a number of significant risks associated with the MTFS including: • The uncertainty about how much funding will be received from Government; • Identified savings options may not be achieved; • Further efficiency savings may not be identified;	We will review your updated MTFS and its key assumptions. We will benchmark your inflation, growth and efficiency projections as well as your reserve balances. We will consider your financial resources and your assumptions around future income streams. We will feedback our findings to the Section 151 Officer and the Audit Committee. We will meet regularly with the Section 151 Officer and the Managing Director to discuss the Authority's financial position and plans. We are aware that the Section 151 Officer has highlighted to Councillors the significance of the requirements of Section 114 of the Local Government Finance Act 1988 and we will consider how he is satisfied that issuing a report under that Act is not required. We will review in-year finance reports and cash flow and reserves forecasts to identify key issues and consider their impact on budgets and plans. We will consider the proposed amendments to the calculation of your Minimum Revenue Provision. We will consider the findings of our detailed testing on the Authority's estimates, provisions and journals undertaken as part of our final accounts audit work. If any of these findings have a significant impact upon the Authority's financial plans we will feedback our findings to you.

Risk	Audit approach
• Spending may exceed budgets and/or income may fall short of budgets; • The impact of the current economic climate, including increased inflationary pressures and interest rate changes; • Demand for services may exceed estimates; and • Future finance settlements may vary from current assumptions. Effectively managing these risks is critical to the Authority's future financial resilience. Consideration of this area will therefore form a key part of our assessment on your arrangements for securing economy, efficiency and effectiveness in the use of Authority resources. We need to be satisfied that the Authority can demonstrate financial resilience over the medium term as well as ensuring that planned expenditure of the Authority in a financial year is not likely to exceed the resources (including sums borrowed) available to it. This looks particularly challenging for 2016/17.	The robustness of savings plans and response to the projected funding gap will significantly factor into our assessment of whether the Authority is able to demonstrate financial resilience. We will test a sample of savings plans to consider whether they are reasonable. If our assessment results in the view that the Authority is unable to demonstrate financial resilience this will directly impact on our value for money opinion. Additional reporting may be required under the Local Government Finance Act 1988 which requires an auditor to issue 'an advisory notice' if he has reason to believe that the body or an officer of the body is about to take or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency.

Group Overall Materiality: £19.17m

Council Overall Materiality: £17.25m

Group Triviality: £960k

Council Triviality: £860k

Intelligent scoping

Group Materiality

	£m
Overall Group materiality	19.17
Clearly trivial reporting de minimis (Group)	0.96

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

Overall materiality has been set at 2% of total gross service expenditure for the year ended 31 March 2014. We will update this assessment as necessary in light of the Authority's 31 March 2015 actual results.

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

For the Group we calculate this reporting threshold as £960,000, based on 5% of overall materiality.

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

For the 2014/15 financial year, we expect these benchmarks to be as follows:

Authority materiality

	£m
Overall materiality	17.25
Clearly trivial reporting de minimis	0.86

Robust Testing

Where we do our work

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

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

When we do our work

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

Value for Money Work

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS is required to be presented by the Authority with the Statement of Accounts.

We will review the AGS to consider whether it complies with the CIPFA / SOLACE "Delivering Good Governance in Local Government" framework and whether it is misleading or inconsistent with other information known to us from our audit work.

Whole of Government Accounts

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

Meaningful conclusions

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

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

Audit value comes from the same source as audit quality so the work that we do in support of our audit opinion also means that we should be giving you value through our observations, recommendations and insights. We will share insights and observations with you in our audit reports throughout the year.

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

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility	Management's responsibility	Responsibility of the Audit Committee
Our objectives are: To identify and assess the risks of material misstatement of the financial statements due to fraud; To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and To respond appropriately to fraud or suspected fraud identified during the audit.	Management's responsibilities in relation to fraud are: To design and implement programmes and controls to prevent, deter and detect fraud; To ensure that the entity's culture and environment promote ethical behaviour; and To perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.	Your responsibility as part of your governance role is: To evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate 'tone at the top'; and To ensure any alleged or suspected instances of fraud brought to your attention are investigated appropriately.

2.

Conditions under which fraud may occur

Your views on fraud

We enquire of the Audit Committee:

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

Protecting the Public Purse

The 2014 version of the annual Audit Commission report *Protecting the Public Purse (PPP)* was published on 23 October 2014. That report highlighted current and emerging fraud risks in local government. The report also provided summary information on fraud detection activities, based on the Audit Commission's annual detected fraud and corruption survey.

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

Your PwC team

The individuals in your PwC team have been selected to bring you extensive audit experience from working with Local Authorities, the wider public sector and the commercial sector.

We also recognise that continuity in the audit team is important to you and the senior members of our team are committed to developing longer term relationships with you.

The core members of your audit team are:

Audit Team	Responsibilities
Engagement Leader Richard Bacon 6th year on the audit - *Audit Commission approval has been received allowing Richard to continue as engagement leader for a sixth year.* 0121 232 2598 richard.f.bacon@uk.pwc.com	Responsible for independently delivering the audit in line with the Audit Code (including agreeing the Audit Plan, ISA 260 Report to Those Charged with Governance and the Annual Audit Letter), quality of outputs and signing of opinions and conclusions.
Engagement Senior Manager Richard Vialard 9th year on the audit 07809 755 784 richard.vialard@uk.pwc.com	Responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, ISA 260 report and Annual Audit Letter.
Engagement Manager Sophia Mouyis 3rd year on the audit 07515 541 313 sophia.mouyis@uk.pwc.com	Responsible for managing our accounts work, including audit of the statement of accounts and governance aspects of the Value for Money work.
Senior Team Leader Liam Gough 3rd year on the audit 07701 295 919 maya.e.price@uk.pwc.com	Responsible for leading the audit team on site and liaising with finance staff on the scope and timing of our work.
Team Leader Maya Price 3rd year on the audit 07715 035 145 maya.e.price@uk.pwc.com	

Your audit fees

The Audit Commission has provided indicative scale fees for Local Authorities for the year ended 31 March 2015.

Our indicative 2014/15 audit fee, compared to the actual fee for 2013/14 is as follows:

Audit fee	Actual fee 2013/14 £	Indicative fee 2014/15 £
Audit work performed under the Code of Audit Practice - Statement of Accounts - Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources - Whole of Government Accounts	251,100	252,570*
Pension Fund	48,618	48,618
Certification of Claims and Returns (proposed final fee)	34,261	21,940
Sub - Total Audit Code work	**333,979**	**323,128**
Additional local risk based audit work (Note 1)	40,011	51,000
Sub – Total Audit Fees	**373,990**	**373,128**
Planned non-audit work (Note 2)	90,875	20,190
Total fees (audit and non-audit work)	**464,865**	**393,318**

*The Audit Commission have added a supplemental fee of £1,470 to the scale fee to cover the additional audit procedures we are now required to carry out on business rates balances and disclosures due to the localisation of business rates in the prior year.

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

The initially proposed fee for the work on these additional risks was £40,000 for 2013/14, as discussed and agreed with you. The final approved fee for this work was £40,011.

As part of our 2014/15 audit planning process we have tailored a programme of audit work in response to the additional local audit risks relevant to this Authority for the period in question.

Our current analysis of these local considerations, which have been discussed with Senior Officers, is set out in the table below. We will seek approval from the Audit Commission for these fees.

Analysis of local additional audit work

Additional risk based audit work:	2013/14 Actual	2014/15 Plan
Property, Plant and Equipment Valuation	11,919	10,000
Equal Pay and Single Status	8,016	8,000
Savings Plans	12,024	12,000**
System changes and redesign	8,052	15,000

Minimum Revenue Provision	0	6,000
Total local risk based audit work	**40,011**	**51,000**

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

Note 2 – The non-audit work relates to:

Description of work	Amount (£)
Agreed upon procedures undertaken on the 2013/14 Decent Homes Backlog Funding Grant – although this relates to the 2013/14 financial year, the work was not requested and delivered until the 2014/15 financial year	6,500
Teachers' Pensions EOYCa Return for 2013/14 – as above, although this relates to the 2013/14 financial year, the work was not requested and delivered until the 2014/15 financial year	8,540
Assurance report in respect of the Regional Growth Fund grant (February 2015)	5,150

Note 3 - We have based the fee level on the following assumptions:

- Officers meeting the timetable and content of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit and we are able to draw comfort from your management controls;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- Sufficient staff are available throughout the course of our work to respond to our queries on a timely basis;
- There is no significant departure from our pre-agreed timetable;
- We receive only two sets of accounts to audit; being a draft and a final set with all changes tracked;
- An early draft of the Annual Governance Statement being available for us to review prior to the final audit;
- Our value for money conclusion and accounts opinion being unqualified;
- We are able to resolve any accounting matters without recourse to third party advice;
- There are no significant changes to core financial systems in year (that we have not already been made aware of); and
- You have satisfactorily addressed the issues we have raised in the prior year.

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

Appendices

Appendix A: Independence threats and safeguards

At the beginning of our audit process we are required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters and there are no matters which we perceive may impact our independence and objectivity of the audit team.

Other services

At the time of drafting this plan the non-audit services being provided, and the associated threats and safeguards, are set out below:

Support provided by PwC	Value	Threats to independence and safeguards in place
Certification of claims and returns	£34,621	**Self Review Threat:** The audit team will conduct the grant certification and this has arisen due to our appointment as external auditors. There is no self review threat as we are certifying management completed grant returns and claims. **Self Interest Threat:** As a firm, we have no financial or other interest in the results of the Authority. We have concluded that this work does not pose a self interest threat. **Management Threat:** PwC is not required to take any decisions on behalf of management as part of this work. **Advocacy Threat:** We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat. **Familiarity Threat:** Work complements our external audit appointment and does not present a familiarity threat. **Intimidation Threat:** We have concluded that this work does not pose an intimidation threat as all officers and Councillors have conducted themselves with utmost integrity and professionalism.
Decent Homes Backlog Grant 2013/14 – Agreed Upon Procedures	£6,500	**Self Review Threat:** There is no self review threat. We performed this work subsequent to the 13/14 accounts audit. **Self Interest Threat:** As a firm, we have no financial or other interest in the results of the Authority. We have concluded that this work does not pose a self interest threat.

		Management Threat: PwC is not required to take any decisions on behalf of management as part of this work. **Advocacy Threat:** We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat. **Familiarity Threat:** We consider the familiarity threat to be sufficiently low on the basis that our role as external auditors requires us to maintain independence and objectivity at all times which is extended to all work we perform for the Authority. **Intimidation Threat:** We have concluded that this work does not pose an intimidation threat as all officers and Councillors have conducted themselves with utmost integrity and professionalism.
Teachers' Pensions EOYCa Return for 2013/14	£8,540	**Self Review Threat:** There is no self review threat. We performed this work subsequent to the 13/14 accounts audit. **Self Interest Threat:** As a firm, we have no financial or other interest in the results of the Authority. We have concluded that this work does not pose a self interest threat. **Management Threat:** PwC is not required to take any decisions on behalf of management as part of this work. **Advocacy Threat:** We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat. **Familiarity Threat:** We consider the familiarity threat to be sufficiently low on the basis that our role as external auditors requires us to maintain independence and objectivity at all times which is extended to all work we perform for the Authority. **Intimidation Threat:** We have concluded that this work does not pose an intimidation threat as all officers and Councillors have conducted themselves with utmost integrity and professionalism.
Assurance report in respect of the Regional Growth Fund grant	£5,150	**Self Review Threat:** There is no self review threat as we would not place any reliance on this work. The total value of the grant is below our materiality thresholds. **Self Interest Threat:** As a firm, we have no financial or other interest in the results of the Authority. We have concluded that this work does not pose a self interest threat. **Management Threat:** PwC is not required to take any decisions on behalf of management as part of this work. **Advocacy Threat:** We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat. **Familiarity Threat:** We consider the familiarity threat to be sufficiently low on the basis that our role as external auditors requires us to maintain independence and objectivity at all times which is extended to all work we perform for the Authority.

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

Note: A senior manager from PwC's Advisory practice has been seconded on a short term pro-bono basis to assist the development of the West Midlands Combined Authority. Because of the nature of the support (project management support for the creation of an Authority distinct from the Council) and because of the timing of the work (the Authority and any associated accounting arrangements will not materialise until after the period of our audit), we have satisfied ourselves that no additional safeguards are required.

Relationships and Investments

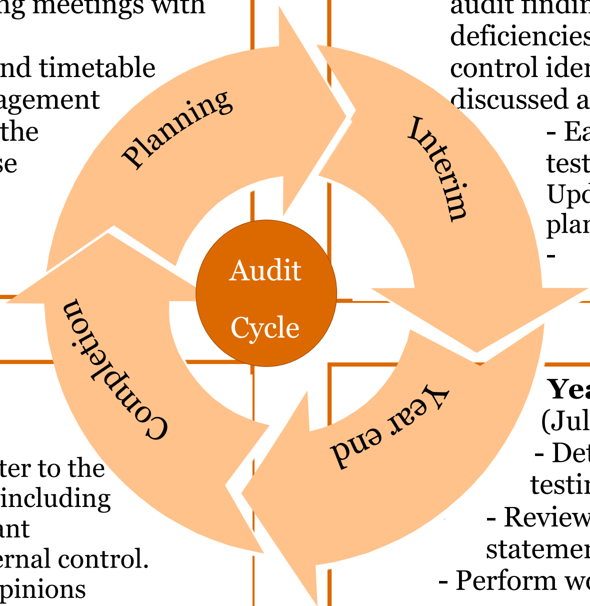
Senior officers should not seek or receive personal financial or tax advice from PwC. Non-executives who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

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

Appendix B: Communications Plan

Planning (January - March)
- Discussion of business risks with key management and plan detailed audit approach
- Detailed planning meetings with Finance and IT.
- Audit strategy and timetable agreed with management
- Presentation of the audit plan to those charged with governance

Interim audit (April)
- Update understanding of key processes and controls
  - Key accounting and audit findings/significant deficiencies in internal control identified, discussed and resolved
    - Early substantive testing
    Update our planning work
    - Progress Reporting



Completion
(September)
- Management letter to the Audit Committee, including report on significant deficiencies in internal control.
- Statutory audit opinions
Representation Letter
- Annual Audit Letter

Year end audit
(July/August)
- Detailed audit testing.
- Review of financial statements
- Perform work on value for money
- Whole of Government Accounts procedures
- Clearance meetings with management.

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

Appendix C: Audit quality

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

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

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

Procedure	Description
Technical updates	PwC prepares numerous publications to keep both PwC staff and our clients abreast of the latest technical guidance. These include: A weekly publication covering the week's accounting and business developments; A periodic publication providing in-depth analysis of significant accounting developments; and A publication issued shortly after meetings of standard setters, including IFRIC and the EITF, to provide timely feedback on issues discussed at the meeting. We also provide Local Government specific technical updates through regular publications issued by our Local Government Centre of Excellence and weekly conference calls for all Local Authority engagement teams during the final audit period. We will share our technical updates with you throughout the year.
Independence standards	PwC has policies and systems designed to comply with relevant independence and client retention standards. Before a piece of non-audit work can begin for the Authority, it must first be authorised by the engagement leader who evaluates the project against our own internal policies and safeguards and against your policy on non-audit services. Above a certain fee threshold, we then seek approval from the Audit Commission before proceeding with any work.
Ethics	Our Ethics and Business Conduct Programme includes confidential communication channels to voice questions and concerns 24 hours a day, seven days a week. Confidentiality helps us to ensure that we receive the candid information and that we respond with the appropriate technical and risk management resources.
Independent review	Our audits are subject to ongoing review and evaluation by review teams within PwC and also by the Audit Quality Review Team (AQRT, formerly the Audit Inspection Unit). The most recent report on PwC was issued in May 2014 and although there are some areas for development identified the general theme was that audit quality has continued to improve. The firm has developed action plans for all areas for development identified by the AQRT. As auditors appointed by the Audit Commission we are also required to comply with their annual Regulatory Compliance and Quality Review programme. The results for our 2013/14 audits are expected in 2015 and will be publicly available on the Audit Commission's website should you wish to take a look.

Smart People

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

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

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

Smart Approach

Data auditing

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

In 2014/15 we anticipate the work will include:

- Testing journals using data analytics, ensuring we consider the complete population of journals and target our detailed testing on the items with the highest inherent risk.

- The production of a journals 'insight report' which shows the comparable use of journals across the organisation and explores some of the root causes. We will use the data gathered as part of our journals testing to share our findings and observations with management.

Centre of Excellence

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

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

Delivery centres

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

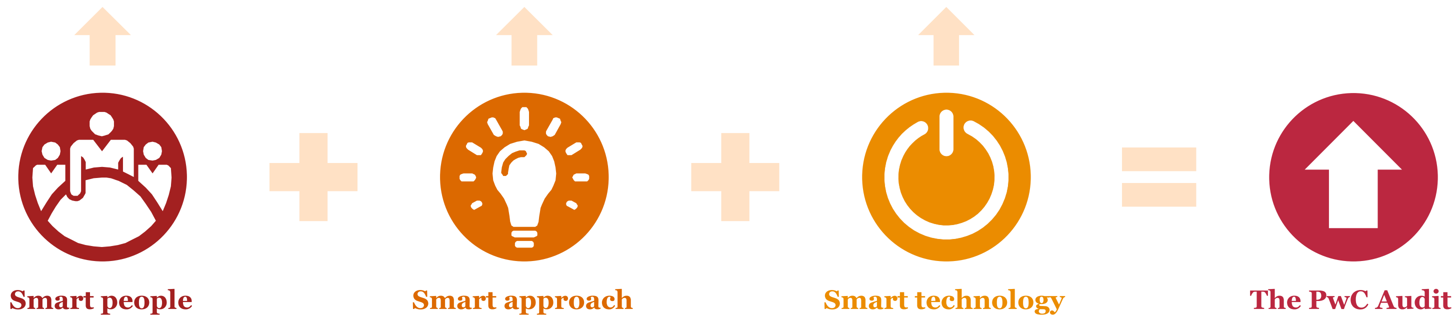
The use of our delivery centres frees up your audit team to focus on other areas of the audit.

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

Smart Technology

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

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



Our 'smart' approach underpins your audit

Client Connect

PwC is committed to using technology smartly to make our audit experience better for our clients. We use Client Connect to help make the audit run more smoothly and securely.

Client Connect is a web-based online workroom that facilitates the secure exchange of requested audit documents between you and us.

Each user of Client Connect has a personalised page, showing the status of any tasks that they're responsible for. This makes it much easier for your team to administer the requests, reducing the time spent on managing the audit process at your end. It also reduces the likelihood of delays to the audit process and associated audit overruns.

The use of templates within Client Connect requests make it clear what format the requested information needs to be in. This helps ensure requests are right first time, reducing the cost of re-work.

Appendix D: Other engagement information

The Audit Commission appoint us as auditors to Wolverhampton City Council and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors.

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

Electronic communication

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

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

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

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

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

Access to audit working papers

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

Overseas processing of information

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in India and Poland for the facilitation of basic audit tasks. The types of tasks we may off-shore includes:

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

We confirm that:

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

- We already successfully use a UK based delivery centre for financial statements quality checks and that this service will remain in the UK.

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

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Richard Bacon, our Government & Public Sector Assurance Lead Partner at our office at Cornwall Court, Birmingham, B3 2DT, or James Chalmers, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.