

# Wolverhampton City Council

*Report to those charged with governance*

Report to the Audit Committee of the council on the audit for the year ended 31 March 2015 (ISA (UK&I)) 260)

Government and  
Public Sector

September 2015

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## **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 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.*

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*An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.*

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# **Executive summary**

## **Background**

This report tells you about the significant findings from our audit. We presented our plan to you in March 2015; we have reviewed the plan and concluded that it remains appropriate.

## **Audit Summary**

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts and Value for Money conclusion on 30 September 2015.

At the time of writing, there are some areas where our work has commenced but is not yet finalised.

In particular, the following procedures remain outstanding:

- Resolution of queries outstanding on the valuation of property, plant and equipment;
- Finalisation of our review of the arrangements in place to secure financial resilience including savings plans;
- Receipt of invoices relating to 10 operating expenditure transactions;
- Finalisation of our valuation experts' review of the Airport shareholding valuation;
- Receipt of the formal written confirmation from the Council's legal advisors relating to the equal pay provision;
- Receipt of supporting information on business rates transactions including the appeals provision;
- Finalisation of the benefits certification work which informs our audit work;
- Finalisation of our review of the detailed disclosures in the Statement of Accounts;
- Review of the whole of government accounts returns in accordance with instructions provided to us by the National Audit Office;
- Completion procedures including subsequent events review; and
- Approval of the Statement of Accounts and letters of representation.

We will provide a verbal update on the resolution of these procedures at the Audit Committee.

## **Quality of draft accounts**

Your draft accounts were submitted to us by the 30<sup>th</sup> June deadline. Our initial enquiries identified that an error had been made in presenting the recharges in the Comprehensive Income and Expenditure Statement. The Council immediately rectified the error and presented a second version of the draft accounts in July.

*Readiness for start of audit and working papers*

Working papers were in the main ready at the start of the audit. Additional requests were responded to on a timely basis.

*Availability and responsiveness of staff*

The finance team and key contacts elsewhere were available throughout the audit and responded promptly to our audit questions and requests for information.

*Significant audit and accounting issues*

We identified some audit and accounting issues during the audit which are explained later in this report. Management have confirmed that these will be appropriately accounted for and disclosed in the final version of the financial statements.

*Deficiencies in internal control systems*

We identified four deficiencies in internal control. These are explained in detail on page 20.

We thank the Finance Team and others for their support and assistance during the course of our work.

We look forward to discussing our report with you on 21 September 2015. Attending the meeting from PwC will be Sophia Mouyis and Richard Bacon.

# Audit approach

Our audit approach was set in our audit plan which we presented to you in March 2015. We carried out a re-assessment of our audit plan prior to the final audit. No new risks were added but we increased the 'Implementation of Agresso' risk from Elevated to Significant, specifically in relation to payroll expenditure. The data transfer made from the old Mainframe system to the new Agresso system during the year is material to the accounts and additional audit procedures were required.

We have summarised below the significant and elevated risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work. You will note below that

Risk	Category	Audit approach	Results of work performed
<p><b>Management override of controls</b></p> <p>ISA (UK&amp;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.</p>	<p>Significant</p>	<p>As part of our assessment of your control environment we considered those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. We considered the level of assurance provided by Internal Audit regarding management's ability to override controls.</p> <p>We performed procedures to:</p> <ul style="list-style-type: none"> <li>• Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;</li> <li>• Test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported outturn;</li> <li>• Review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension assumptions, valuation and impairment assumptions);</li> <li>• Evaluate the business rationale underlying significant transactions outside the normal course of business;</li> <li>• Test exceptional and unusual items arising from bank and other reconciliations; and</li> <li>• 'Unpredictably' targeted testing on fraud risks.</li> </ul>	<p>No issues have been noted as part of the procedures performed.</p>

Risk	Category	Audit approach	Results of work performed
<p><b>Risk of fraud in revenue and expenditure recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumption that there are risks of fraud in revenue recognition.</p> <p>We extend this presumption to the recognition of expenditure in local government.</p> <p>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 a material misstatement in the reported revenue and expenditure position.</p>	<p>Significant</p> <p>●</p>	<p>We obtained an understanding of revenue and expenditure controls and placed reliance on internal audit work, where most efficient to do so.</p> <p>We evaluated and tested the accounting policies for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting.</p> <p>We performed detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk including procedures in relation to:</p> <ul style="list-style-type: none"> <li>• The appropriateness of journal entries and other adjustments;</li> <li>• Income and expenditure 'cut off'; and</li> </ul> <p>Accounting estimates and judgements made for income and expenditure (e.g.: accruals, deferred income and provisions).</p>	<p>No issues have been noted as part of the procedures performed.</p>

Risk	Category	Audit approach	Results of work performed
<p><b>Property, Plant and Equipment Valuation</b></p> <p>Property, Plant and Equipment is the largest figure on your Balance Sheet.</p> <p>You value your properties at fair value using a range of assumptions and the advice of internal and external experts.</p> <p>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.</p> <p>Specific areas of risk for 2014/15 therefore include:</p> <ul style="list-style-type: none"> <li>• asset valuation base data may be inaccurate or incomplete;</li> <li>• valuation assumptions used may not be appropriate; and</li> <li>• asset fair values may fluctuate materially between the revaluation date and the financial year end and may not be appropriately reflected in the accounts.</li> </ul>	<p>Significant</p> <ul style="list-style-type: none"> <li>•</li> </ul>	<p>We reviewed the basis of asset revaluations undertaken and in doing so considered:</p> <ul style="list-style-type: none"> <li>• the judgements, assumptions and data used;</li> <li>• the reasonableness of any estimation techniques applied; and</li> <li>• the expertise of your valuation experts.</li> </ul> <p>We considered the Authority's response to control recommendations made in the previous year and validated base data to underlying records.</p> <p>Where assets are not re-valued in year we understood the steps taken to ensure that your balance sheet is materially accurate at the year end.</p>	<p>We have a number of queries outstanding and therefore we are unable to provide our results at the time of writing.</p> <p>We will provide a verbal update at the Audit Committee.</p>

### 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 (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 Members 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 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

### Significant

● As external auditors our responsibilities with regard to MRP are limited to:

1. Legal considerations - to ensure that the Council can demonstrate that it is satisfied 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.

We considered the two changes in policy that the Council has adopted during 2014/15 against these two considerations.

We also ensured that the Council had followed an appropriate governance process when amending the policy during the year.

We were able to confirm that the changed policy had been approved by Full Council during the year as required by the guidance.

We reviewed the Section 151 Officer's assessment that the new policy was prudent and understood the rationale behind this assessment – especially the recognition of the over-prudent sum of around £37 million spread over a number of years.

We 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 have audited the MRP accounting entries made in the 2014/15 Statement of Accounts to confirm whether the entries (including nil entries) are consistent with the adoption of the revised policy in-year. We have also considered the impact of the changes to the policy in light of our materiality levels.

We concluded that the Council's revised MRP policy does not comprise an illegal act, based on the legal advice provided by the Council which we are not minded to challenge.

We confirmed that the Council has followed appropriate governance arrangements for revising the policy during the year.

We observed that the Section 151 Officer and full Council have determined the new policy to be prudent.

We have tested the MRP accounting entries made in the 2014/15 Statement of Accounts and confirmed they are consistent with the adoption of the revised policy in year.

We confirmed that the difference between the MRP charge that would have arisen under the previous policy (c.£12M) and the nil entries recorded in 2014/15 isn't below our overall materiality level.



Risk	Category	Audit approach	Results of work performed
<p>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.</p> <p>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.</p>			

Risk	Category	Audit approach	Results of work performed
<p><b>Implementation of Agresso</b></p> <p>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.</p> <p>Agresso is integrated to 18 systems including Northgate Revenues and Benefits and Housing amongst others. 43 system interfaces have also been implemented.</p> <p>2014/15 will be the first year the Statement of Accounts will be prepared from Agresso.</p> <p>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.</p> <p>We are also aware that there have been some challenges faced during the implementation including payroll and creditor payments. This has included:</p> <ul style="list-style-type: none"> <li>- The significant data transfer from the old Mainframe system to the new Agresso system part-way through the year, and</li> <li>- A backlog of payments.</li> </ul> <p>In response to these challenges we will perform additional audit procedures over payroll and creditors.</p>	<p>Significant</p> <ul style="list-style-type: none"> <li>•</li> </ul>	<p>We obtained a comprehensive understanding of the automated processes and controls within Agresso to aid the development of our testing approach.</p> <p>We understood and tested the reliability of reports generated from Agresso that we plan to use for the audit.</p> <p>We understood, evaluated and validated that controls within Agresso are operating effectively in the following domains:</p> <ul style="list-style-type: none"> <li>• Data transfer from the old to new ledger system;</li> <li>• Access control;</li> <li>• Computer operations; and</li> <li>• Change management.</li> </ul> <p>Our review of the data transfer from the Mainframe to Agresso is still in progress. The purpose is to check that all payroll data has been accounted for completely and correctly in the accounts.</p> <p>We performed targeted work over the year end creditors balance, in particular the completeness and accuracy of accruals.</p>	<p>We identified two control deficiencies in relation to access control as a result of work performed, but these findings did not alter our audit approach as mitigating controls were in operation.</p> <p>Work is ongoing on the payroll reconciliation and therefore we are unable to provide our results at the time of writing.</p> <p>No issues have been noted in our work on creditors to date.</p> <p>We will provide a verbal update at the Audit Committee.</p>

Risk	Category	Audit approach	Results of work performed
<p><b>Provision for Equal Pay</b></p> <p>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.</p> <p>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.</p> <p>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.</p>	Elevated ●	<p>We evaluated the accounting policies for recognising associated expenditure and liabilities.</p> <p>We tested 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.</p> <p>We received confirmation on these matters from the Authority's legal advisors.</p> <p>We reviewed and challenged assumptions made by the Authority regarding relevant case law and the associated implications for the Authority's provision.</p>	<p>Pending receipt of the confirmation from the Authority's legal advisers we expect to conclude that no issues were noted as a result of these procedures.</p>

### *Intelligent scoping*

In our audit plan presented to you in March 2015 we reported our planned overall materiality which we used in planning the overall audit strategy. Since then our materiality levels have changed because total expenditure increased in the draft accounts to over £1 billion breaching the threshold which requires us to audit Wolverhampton City Council's accounts as a Public Interest Entity (PIE). In such instances the level of materiality used is decreased significantly.

Our revised materiality levels are as follows:

	<b>£ m</b>
Overall materiality	10.6
Clearly trivial reporting de minimis	0.5



Overall materiality changed to 1% of actual expenditure for the year ended 31 March 2015.

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. We agreed the de minimis threshold with the Audit Committee at its meeting in March 2015 of £860k based on previous materiality levels. Based on the new materiality levels we are required to tell you about all misstatements greater than £530k.

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# *Significant audit and accounting matters*

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

At the time of writing, our audit work is still in progress. Subject to the satisfactory resolution of these matters set out on page 1 including the finalisation of the Statement of Accounts and their approval of them we expect to issue an unqualified audit opinion.

As part of our work on the Statement of Accounts we will also examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and will issue an opinion stating in our view whether they are consistent with the Statement of Accounts. We will provide a verbal update at the Audit Committee on the results of our work.

## *Accounting issues*

### *Valuation of property, plant and equipment*

Your accounting policy is that your property, plant and equipment is shown at fair value. This requires review of the value of your housing stock and other land and buildings every year.

This involves some judgement and reliance on your internal valuers. Judgements applied are, in the main, determined by your valuer. To assess these, we ask our valuation experts to review the key judgements applied.

We also test that the underlying data on the type, size and nature of assets used in the valuation - 'base data' - is appropriate by checking to supporting documentation.

**We have a number of queries outstanding at the time of writing relating to both the judgements taken by your internal valuer as well as the base data used. We have no issues to report at this stage and will provide a full update at the Audit Committee.**

### *Equal Pay Provision*

As in previous years, the Council has included a provision in the accounts to reflect the most probable liability relating to equal pay and back pay claims.

Over the last six years the Council has received notification of a number of employment tribunal claims alleging breach of Equal Pay legislation. The Council has engaged Solicitors to provide legal advice and conduct proceedings.

In 2014/5, £6m of Equal Pay claims were settled. A larger value of other known or potential claims remains unresolved. The Council has considered the legal advice and other information and included a provision of £12.4m.

We have reviewed the documentation and calculations supporting this provision, including payments made during the year. The majority of the provision (£11.2 million) is supported by known cases that can be quantified with a high degree of certainty. There are a number of other potential claims where either the value of the liability is harder to quantify accurately or there is less certainty about whether a claim will be made against the Council. The treatment of these claims requires judgement, and there remains risk that the value of the actual liability experienced by the Council differs from the assumptions management have made.

We are comfortable that the estimate made to cover second generation claims and any other claims is consistent with the information we have reviewed but given the inherent uncertainty in the estimate we are also seeking representation from the Section 151 Officer that the judgements taken have been made in good faith and are the most appropriate given all the advice received. This is a standard audit procedure.

We have also requested formal confirmation from the Council's legal advisors that the proposed accounting treatment is consistent with the advice they have provided. This is a standard audit procedure.

**Subject to these confirmations we expect to conclude that the need for the provision is reasonable and meets relevant financial reporting standards and the value is materially accurate based on available information.**

#### *Pension liability*

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the West Midlands pension fund. Your net pension liability at 31 March 2015 was £588 million (2014 - £462 million).

You rely on the work of an actuary in calculating these balances. Changes in the assumptions used by the scheme and the results of the triennial valuation have yielded a pension actuarial loss of £105 million in 2014/15 (£110 million gain in 2013/14).

We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range.

We validated the data supplied to the actuary on which to base their calculations.

#### *Misstatements and significant audit adjustments*

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. At the time of writing we have identified no uncorrected misstatements.

We also bring to your attention the following misstatements which have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities.

Our work on disposals identified that a land asset valued at £10.5m had been written out of the accounts incorrectly during 2014/15. The reason for the error was because its asset description had not been updated in the asset register and it was therefore assumed to be land used by an Academy school. This however is not the current use of the land, and this asset needed re-recognising in the accounts. This has increased assets by £10.5m and reduced the loss on disposal in the Comprehensive Income and Expenditure Statement by the same amount.

Linked to the above, we identified that the buildings on the land referred to above were valued down to £nil in 2012/13 as they were used by the Academy at the time and no future use of the building was expected at the time. The building is however now rented out and the Council is collecting income as a result. Therefore, the building should be revalued to reflect its existing use value as at 31 March 2015. We have requested this valuation be performed and we will review the outputs once completed. We will report back the result of this exercise at the Audit Committee.

### *Significant accounting principles and policies*

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

Our review of accounting principles and policies has concluded they are appropriate and have been applied correctly.

### *Judgments and accounting estimates*

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. Apart from the accounting judgements and estimates already discussed above in the *Accounting Issues* section, the following significant judgements and accounting estimates were used in the preparation of the financial statements:

- **Depreciation** - You charge depreciation based on an estimate of the Useful Economic Lives of your Property, Plant and Equipment (PPE). This involves a degree of estimation and impacts on the amount charged to the CIES (although there is no impact on the General Fund).
- **Bad Debt Provision** – Your ‘Bad Debt Provision’ for sundry and collection fund debtors is calculated on the basis of age and an assessment of the potential recoverability. There is an inherent level of judgement involved in calculating these provisions. We have reviewed the basis of calculation and identified no concern.
- **Accruals** - You raise accruals for income and expenditure where an invoice has not been raised or received at the year end, but you know there is a liability to be met or income due which relates to the current year. This involves a degree of estimation. The process for generating accruals has become increasingly automated with the introduction of the Agresso system, although some manual accruals are still created. You apply a de-minimis threshold when creating manual accruals of £10,000. This was agreed and approved in the previous financial year. As part of our audit work we consider the continued appropriateness of the threshold and we have not identified any issues.

- **Airport valuation** - Consistent with prior periods you have obtained an estimate of the value of the Council's investment in Birmingham Airport based on information provided by partners and valuation experts. The estimated fair value for the Council's investment at 31 March 2015 is £616k lower than the valuation at 31 March 2014 in the Council's balance sheet. To assess the judgements and methods used in arriving at the current year valuation we have engaged our own valuation experts to carry out this assessment. We are awaiting the results from their work and will update you on our findings at the Audit Committee.
- **Provisions** - Provisions are liabilities of an uncertain timing or amount and therefore there is an inherent level of judgement to be applied. Your equal pay provision is your most significant provision and has been considered above. All remaining provisions have been assessed to ensure they are not understated. With the exception of the business rates appeals provision for which we have outstanding queries, we have been able to conclude that the remaining provisions are not materially understated.
- **Minimum Revenue Provision** – During 2014/15 you have amended the method by which you redeem your debt relating to capital expenditure. You have still determined a method of calculating MRP that allows you to redeem your debt liability in full over a period which is expected to be equal to, or shorter than the period over which the capital expenditure is estimated to provide benefits. However, you have determined that your previous policy was excessively prudent which resulted in taxpayers being overcharged for debt liabilities in recent years. As a result you have significantly reduced the MRP charges to be incurred over the short to medium term. In the next three years, other than PFI-related liability repayments, your MRP charge is expected to be zero. Whilst you have obtained legal advice to support the legality and prudence of this approach it should be noted that this approach is not typical amongst local authorities and does result in lower payments in 2014/15 and beyond than similar authorities.
- **LOBOs** - You have 21 LOBOs worth £103.8m with interest rates this year of between 3.6% to 4.95%. All were renegotiated in 2006 or later to mature in 2066 when the principal amount will become repayable. We understand that most are now fixed at the current rate for the remainder of the life with the option to cancel, subject to a fee.

### *Management representations*

The final draft of the representation letter that we ask management to sign is attached in Appendix 1.

### *Financial standing*

You identified no material uncertainties related to events and conditions that may cast significant doubt on the Authorities' ability to continue as a going concern and that in overall terms there are sufficient resources available to meet your commitments for at least a 12-month period after the projected date of our audit opinion. We concluded that this consideration is appropriate.

### *Related parties*

In forming an opinion on the financial statements, we are required to evaluate:



- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We have undertaken independent searches of company and organisation records to identify any missing related parties.

We identified that related party transactions with one organisation totalling over £100,000 had not been disclosed in the draft accounts. Management have agreed to correct for this.

We also noted that Directorships or Secretary positions held at organisations which are considered related parties of the Council had not been declared by Council Members during the 2014/15 financial year. In our work, we identified 14 such non-disclosures across nine Members. We have raised this as a control deficiency.

### *Audit independence*

We are required to follow both the International Standards 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 Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

### *Relationships and Investments*

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

### *Employment of PricewaterhouseCoopers staff by the Authority*

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

### *Business relationships*

We have not identified any business relationships between PwC and the Authority.

### *Services provided to the Authority*

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm’s internal policies. The audit engagement is subject to an independent partner review of all significant judgements taken, including our reporting to the Audit Committee and a review of the annual report. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has also undertaken other work for the Council that may be perceived to impact upon our independence and the objectivity of our audit team. Below is our assessment of the potential independence threats and relevant safeguards:

Support provided by PwC	Value	Threats to independence and safeguards in place
Certification of claims and returns	£21,940	Our assessment was reported in the March 2015 Audit Plan, when we concluded we were independent. No changes have been made to that assessment.
Decent Homes Backlog Grant 2013/14 – Agreed Upon Procedures	£6,500	Our assessment was reported in the March 2015 Audit Plan, when we concluded we were independent. No changes have been made to that assessment.
Teachers' Pensions EOYCa Return for 2013/14	£8,540	Our assessment was reported in the March 2015 Audit Plan, when we concluded we were independent. No changes have been made to that assessment.
Assurance report in respect of the Regional Growth Fund grant	£10,300	Our assessment was reported in the March 2015 Audit Plan, when we concluded we were independent. No changes have been made to that assessment.
ALMO Review - desktop review of the current ALMO costs.	£10,000	<p><b>Self-review threat:</b> The work has been conducted by a fully independent deals transactions team who had no involvement in the audit of the financial statements. There is no self-review threat as our audit is unaffected by the outcome of this work.</p> <p><b>Self-interest threat:</b> PwC has no financial or other interest in the conclusions of this work. Fees for this work and the audit are not material to PwC or the individuals involved. The fee is not contingent in nature.</p> <p><b>Management threat:</b> PwC is not required to take any decisions on behalf of management as part of this work.</p> <p><b>Advocacy threat:</b> We have not acted for, or alongside, management and have therefore concluded that this work does not pose an advocacy threat.</p> <p><b>Familiarity threat:</b> Neither the audit engagement leader nor any member of the audit team were involved in this work.</p> <p><b>Intimidation threat:</b> We have concluded that this work does not pose an intimidation threat as we have not experienced any undue pressure from officers or councillors and the work will be conducted in accordance with advised agreed upon protocols, and there is no need for judgement. All findings are reported to management, and no process improvement recommendations are made.</p>
We sought and received approval from the PSAA to undertake this work.		
West Midlands Combined Authority – Consultancy Support (relates to two tranches, initial support plus extension)	£54,285	<p><b>Self-review threat:</b> The work has been conducted by a fully independent colleague who had no involvement in the audit of the financial statements. There is no self-review threat as the outcome of this work does not impact the Council until the Combined Authority is created in April 2016.</p> <p><b>Self-interest threat:</b> PwC has no financial or other interest in the conclusions of this work. Fees for this work and the audit are not material to PwC or the individuals involved. The fee is not contingent in nature.</p> <p><b>Management threat:</b> PwC is not required to take any decisions on behalf of management as part of this work.</p> <p><b>Advocacy threat:</b> We have not acted for, or alongside, management and have therefore concluded that this work does not pose an advocacy threat.</p>
This work has been commissioned by the Council, but the cost of the consultancy support is shared equally by all seven councils that will eventually form the Combined Authority.		

We sought and received approval from the PSAA to undertake this work.

**Familiarity threat:** Neither the audit engagement leader nor any member of the audit team were involved in this work.

**Intimidation threat:** We have concluded that this work does not pose an intimidation threat as we have not experienced any undue pressure from officers or councillors and the work will be conducted in accordance with advised agreed upon protocols, and there is no need for judgement. All findings are reported to management, and no process improvement recommendations are made.

Tax Helpline

£2,000

**Self-review threat:** The work has been conducted by a fully independent tax team who had no involvement in the audit of the financial statements. There is no self review threat as the tax team did not prepare any deliverables which were subject to audit.

**Self-interest threat:** PwC has no financial or other interest in the conclusions of this work. Fees for this work and the audit are not material to PwC or the individuals involved. The fee is not contingent in nature.

**Management threat:** PwC is not required to take any decisions on behalf of management as part of this work.

**Advocacy threat:** We have not acted for, or alongside, management and have therefore concluded that this work does not pose an advocacy threat.

**Familiarity threat:** Neither the audit engagement leader nor any member of the audit team were involved in this work.

**Intimidation threat:** We have concluded that this work does not pose an intimidation threat as we have not experienced any undue pressure from officers or councillors and the work will be conducted in accordance with advised agreed upon protocols, and there is no need for judgement. All findings are reported to management, and no process improvement recommendations are made.

Rapid review of Delayed transfer of care

£25,000

We sought and received approval from the PSAA to undertake this work.

**Self-review threat:** The work has been conducted by a fully independent consulting team who had no involvement in the audit of the financial statements. There is no self-review threat as the consulting team did not prepare any deliverables which were subject to audit.

**Self-interest threat:** PwC has no financial or other interest in the conclusions of this work. Fees for this work and the audit are not material to PwC or the individuals involved. The fee is not contingent in nature.

**Management threat:** PwC is not required to take any decisions on behalf of management as part of this work.

**Advocacy threat:** We have not acted for, or alongside, management and have therefore concluded that this work does not pose an advocacy threat.

**Familiarity threat:** Neither the audit engagement leader nor any member of the audit team were involved in this work.

**Intimidation threat:** We have concluded that this work does not pose an intimidation threat as we have not experienced any undue pressure from officers or councillors and the work will be conducted in accordance with advised agreed upon protocols, and there is no need for judgement. All findings are reported to management, and no process improvement recommendations are made.

In addition to the above, a senior manager from PwC's Advisory practice was seconded on a 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 satisfied ourselves that no additional safeguards were required.

Following this, in September 2015, a senior manager from PwC's Assurance practice was seconded to the Council to carry out a Programme Management role for the development of the West Midlands Combined Authority. We do not consider the role to be a key management position impacting on the 2014/15 financial statements audit and we do not believe that the individual has been in a position to influence our audit. Our assessment of independence threats and safeguards is set out below:

Support provided by PwC	Value	Threats to independence and safeguards in place
<p>Secondment of PwC staff to assist with the development of the West Midlands Combined Authority</p> <p>Commissioned by the Council, but the cost of the secondment is shared equally by all seven councils that will eventually form the Combined Authority.</p> <p>We sought and received approval from the PSAA to undertake this secondment.</p>	<p>16,000</p> <p>(We currently expect the vast majority of this work (£13,000) will take place after we have complete our audit of the accounts)</p>	<p><b>Self-review threat:</b></p> <p>Neither the audit engagement leader, nor any member of the audit engagement team, would be involved in the secondment. The secondment involves programme and project management in relation to the creation of a new entity rather than work directly on behalf of the entity that we audit. The secondee will not undertake any work that will impact on accounting entries in the Council's accounts nor concern changes in the council's core financial systems during the period we remain Appointed Auditor. We are satisfied that the risk of self-review in relation to this work is non-existent and that appropriate safeguards would be put in place to ensure our independence is maintained.</p> <p><b>Self-interest threat:</b></p> <p>We do not consider that the size of the fees, in themselves, will undermine our audit objectivity or independence as neither the audit engagement leader nor any of the audit team would be involved in the delivery of the work. In addition, the element of the fee which relates to before the audit opinion is signed is relatively small. None of the work will impact on any of the audit process or financial statements. We are therefore satisfied that there is no risk of self-interest threat in relation to this additional work.</p> <p><b>Management threat:</b></p> <p>PwC will not participate in the management or decision making processes of the Council in relation to this secondment. We are therefore satisfied that there is no risk of PwC acting in a management capacity in relation to this work.</p> <p><b>Advocacy threat:</b></p> <p>The nature of this assignment will not give rise to any advocacy threat.</p> <p><b>Familiarity threat:</b></p> <p>Neither the audit engagement leader, nor any member of the audit team, would be involved in the secondment. We do not therefore believe that this would impact upon our ability to be objective, as the appointed auditor, and sceptical within our role. We are therefore satisfied that there is not a familiarity risk in relation to this work.</p> <p><b>Intimidation threat:</b></p> <p>Secondments do not generally give rise to intimidation threats. We are satisfied that intimidation is not a risk to our independence in this instance.</p>

### *Fees*

The analysis of our audit and non-audit fees for the year ended 31 March 2015 is included on page 21. In relation to the non-audit services provided, none included contingent fee arrangements.

#### *Services to Directors and Senior Management*

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

#### *Rotation*

It is the PSAA's policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The PSAA's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

#### *Gifts and hospitality*

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's Cabinet, senior management or staff.

#### *Conclusion*

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.

We would ask the Audit Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

#### *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 was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied 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. Although some minor recommendations were made, we found no significant areas of concern to report in this context.

## *Value for Money*

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.

We have completed our work, subject to the following outstanding matters:

- Testing the assumptions in a sample of savings plans; and
- Internal quality review procedures

We will provide a verbal update on our value for money conclusion at the Audit Committee.

In our planning risk assessment we identified that although the Council had proper arrangements for challenging how it secures economy, efficiency and effectiveness and for securing financial resilience in the previous year we did identify a number of concerns and risks relating to the Council's ability to continue to demonstrate financial resilience. We therefore developed a detailed programme of work that placed greater emphasis on addressing the financial resilience criterion.

We have prepared a detailed summary of our findings on Financial Resilience which we include as Appendix 2 to this report.

The conclusions of our work are set out below.

- There are adequate Financial Planning, Governance and Control arrangements in place to secure financial resilience.
- We have not identified any material uncertainties relating to events and conditions that may cast significant doubt on the Council's ability to continue to operate for the foreseeable future.
- The use of the going concern assumption is appropriate in the preparation and presentation of the financial statements.
- The Council's systems and processes for effectively managing its financial risks, and to secure a stable financial position, appear to be operating adequately and have put the Council in a position to set a balanced budget for 2015/16 and are well placed to set a balanced budget for 2016/17.

- The longer term financial challenge has reduced significantly over the year due to pro-active financial planning and effective collaboration between Officers and Councillors through new and existing governance arrangements. Whilst there remains a budget gap in the later years of the MTFS this has reduced significantly to £46m up to and including 2018/19 from £123m at the start of 2014 and the Council has a plan and a process to continue to identify further savings.

This view is informed by the Council's processes, financial position and further opportunities although the Council's financial resilience remains at risk if not managed effectively.

*Processes:*

We have considered the Council's track record in:

- setting realistic budgets;
- delivering services within budget;
- delivering planned saving targets; and
- maintaining adequate levels of reserve balances.

We note that:

- You have been through a thorough risk assessment process using thematic review and consideration of statutory and discretionary services to identify a significant number of saving delivery plans to support the majority of the gap identified by the MTFS. We have not completed our testing of these savings plans.
- You have produced a four-year MTFS with assumptions that are broadly comparable with comparator authorities overall and have updated the details behind it in year so that by October 2015 you will have identified a significant proportion of the savings required by the MTFS.
- You have a track record of historical performance that delivers against savings plans.
- On the back of independent advice received you have tackled the 2016-2019 savings elements in distinct and identifiable stages with target values against each stage. This approach seems reasonable.
- You have set a balanced budget for 2015/16 and have developed a plan to deliver a balanced 2016/17 budget through due process and consultation, before the commencement of the financial year. You have already identified savings greater than the budget gap identified for 2016/17 subject to formal consultation and approval.
- Collaborative working between Officers and Councillors has ensured that there is a shared recognition of the need for change and there is a growing body of tangible evidence of Councillors considering previously unpalatable options.
- Arrangements are in place to produce detailed balanced budgets and savings plans and undertake robust review during the year at management and Cabinet, and act quickly to resolve budgetary gaps.

### *Financial position:*

The Council has:

- a strong net asset position of £228 million (pre-audit);
- demonstrated a continued ability to generate small operating cash flows year-on-year (£0.2m this year and last);
- a positive cash balance at year end of £3.7 million (pre-audit) and sufficient funds to meet forecast demand over the year;
- closing borrowing of £605m against an authorised limit for external borrowing of £634.9m.
- a reasonable level of reserves when compared with similar authorities. The General Fund balance meets the Council's policy and the Earmarked Reserves balance includes a significant level of corporate reserves such as the Efficiency Reserve (£5.9m), Business Rates Equalisation Reserves (£3.5m), Budget Contingency Reserve (£6.9m), Budget Strategy Reserve (£9m), Treasury Management Equalisation Reserve (£2m);
- a generally good track record in recording surpluses and achieving financial targets, having identified savings totalling significantly over £100 million over the last five financial years and demonstrating solid financial management in achieving this;
- a strong 30-year HRA Business Plan that is not expected to draw on general fund reserves;
- agreed a strategy to identify £20 million of savings for 2016/17 by October 2015 plus a further £26 million for the medium term period; and
- delivered a significant proportion of the 2015/16 savings target with a further balance having been estimated with a high or medium level of confidence. We have tested the assumptions of a number of these savings plans but our work is not yet complete.

### *Further opportunities:*

Significant uncertainties exist in the current climate and there remain risks associated with changes in government funding and the budget consultation process. It is important therefore that the Council has other options available to it to secure financial resilience. Should the planned savings not materialise the Council could consider options including:

- 1) The Council had opening cash reserves of £3.7m, General Fund reserves of £10m and usable earmarked reserves of £66.4m. These reserves could be used in the short term to mitigate any budgetary gaps.
- 2) The Council has historically evidenced an ability to identify other savings opportunities to negate budgetary gaps identified during the year, caused by schemes that have not delivered.
- 3) The ability to borrow for invest to save capital schemes with a short payback period. Under section 3(1) of the Local Government Act 2003, the Council must approve an overall borrowing limit before the beginning of each financial year. The Council is within this limit so may conclude that it has the opportunity to borrow further in the short term.



Given the above, there are alternative arrangements in place to negate against some short term budgetary shortfalls against the Councils plans. This provides further information that there are suitable arrangements in place regarding securing economy, efficiency and effectiveness with regards to financial resilience.

*Risks remaining:*

Despite being able to conclude satisfactorily that the Council's going concern assumption is appropriate and that we do not require a revision to our value for money conclusion, our work on financial standing has identified a number of areas of concern that put the Council's financial resilience at risk if not managed effectively.

To continue to demonstrate that the Council has sufficient resources available to meet its commitments in the short term it is important that the Council:

- Monitors cost pressures in 2015/16 and beyond for both CYP and Adults services, identifies and reports variances early and takes action to manage such pressures.
- Focuses on delivering the 2015/16 savings that have not yet been banked. Where savings are not likely to be met these expected variances should be reported to Councillors.
- Continues to monitor and report achievement of savings against target by scheme and not just report either exceptions or, has been the case at times historically, achievement of savings by Service or Directorate with no reference to the individual savings schemes approved by Councillors.
- Continues to identify one-off savings during 2015/16 or bring forward future savings scheme to address the currently projected over spend in, and reduce the call on, the General Fund.
- Continues to develop robust and granular plans to ensure the delivery of the c.£20 million savings plans required to set a balanced budget in 2016/17. The more detailed these plans and the more accountability can be allocated the more likely it is that savings will materialise.
- Quantifies the remaining savings target for the period of the MTFS. The latest reported estimate was £46m to 2018/19 but this figure is subject to change and there is a general expectation that government announcements during the current calendar year could affect the budget gap in the MTFS negatively.
- Continues to refine the scale of savings that could be generated from its non-statutory services. We understand that the net cost of these services is significant in the context of the savings gap identified. Once Councillors have been provided with information on the scale of the challenge for 2017 to 2019, a plan must be finalised to set out how further savings will be identified and over what time period.
- Continues to take a radical approach to service provision. Future reductions to local government funding above and beyond those already known about are generally considered highly probable; a significant proportion of the savings remain politically sensitive and may experience difficulties at consultation stage. It would be advisable to identify and approve savings that exceed the known savings target to allow for removal of schemes, slippage and unforeseen costs relating to demand.

- Develops a robust and realistic savings strategy for the period 2017 to 2019 aided by clarity over what non-statutory services could deliver the required savings.
- Keeps its assumptions and estimates under review. Councils have an overarching responsibility to make prudent estimates but the Council should continue to ensure that estimates are appropriate and that pockets of contingency do not exist.

# Internal controls

## Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

## Reporting requirements

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

## Summary of significant internal control deficiencies

Deficiency	Recommendation	Management's response
<b><u>Fixed Asset Register review</u></b> <b>Inaccurate fixed asset descriptions leading to incorrect £10m accounting entry</b>	Review the fixed asset register on an annual basis, including detailed descriptions of assets to ensure correct classification.	Responsibility - Chief Accountant  Specific tasks will be added to the annual reconciliation to review changes to leases with academies and changes in names of assets.
<b><u>Completeness of Related Party declarations</u></b> <b>14 related parties were not declared by Members. One was over the Council's accounts disclosure threshold of £100k. Also, no close dependants were disclosed which is a requirement of the accounting standard.</b>	Provide a re-fresher briefing to Member's on the requirements for related party declarations.	Responsibility: Director of Governance  The declaration will be reviewed to ensure that it is compliant with the accounting standard and a refresher briefing will be provided for members.
<b><u>Full completion of new user access form to Care First system</u></b> <b>A new user access request form for the Care First system had been completed in full and therefore it was not clear who had authorised the individual's access to the system.</b>	Ensure all fields on the authorisation form are completed. A member of staff separate to the preparer of the form should review that all fields were completed in full.	Responsibility: Head of ICT  A process will be put in place to ensure that all fields on the form are completed and checked.

**Lack of leaver's forms for staff using the Care First system**  
**Five employees did not have their access rights removed from the Care First system when they left.**

A leaver's form should be completed in advance of their leaving date. The form should set out all systems the leaver has access to and the date they are due to leave the Authority. Leaving dates should then be monitored and access terminated accordingly.

Responsibility: Head of ICT

A process will be put in place to ensure that information about leavers is captured and that access is removed to all systems promptly following the leaving date.

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# *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

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 responsibility

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.

## Responsibility of the Audit Committee

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 investigate any alleged or suspected instances of fraud brought to your attention.

## Your views on fraud

In our audit plan presented to the Audit Committee in March 2015 we enquired:

- 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?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

### Conditions under which fraud may occur

**Management or other employees have an incentive or are under pressure**

Incentive / pressure

**Why  
commit  
fraud?**

#### **Opportunity**

Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls

#### **Rationalisation/attitude**

Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

# Fees update

## Fees update for 2014/15

We reported our fee proposals in our plan in March 2015. Our anticipated final fees are as follows:

<b>Audit fee</b>	<b>Actual fee 2014/15 £</b>	<b>Indicative fee 2014/15 £</b>
<b>Audit work performed under the Code of Audit Practice</b>		
- 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	252,570	252,570
- Whole of Government Accounts		
<b>Pension Fund</b>	48,618	48,618
<b>Certification of Claims and Returns</b>	21,940 (Note 1)	21,940
<b>Sub - Total Audit Code work</b>	<b>323,128</b>	<b>323,128</b>
Additional local risk based audit work	51,000 (Note 2)	51,000
<b>Sub – Total Audit Fees</b>	<b>373,128</b>	<b>373,128</b>
Non-audit work	126,125 (Note 3)	20,190
<b>Total fees (audit and non-audit work)</b>	<b>499,253</b>	<b>393,318</b>

**Note 1** - Our fee for certification of grants and claims is yet to be finalised for 2014/15 and will be reported to those charged with governance in December 2015 within the Certification Report to Management in relation to 2014/15 grants.

**Note 2** - 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.

As we have reported to you previously, we are required to obtain approval from the PSAA for any variation from its published scale fee. We are still in the process of obtaining this approval and will provide a verbal update on final fees at the Audit Committee.

*Analysis of local additional audit work*

<b>Additional risk based audit work:</b>	<b>2014/15 Plan</b>
Property, Plant and Equipment Valuation	10,000
Equal Pay and Single Status	8,000
Savings Plans	12,000
System changes and redesign	15,000
Minimum Revenue Provision	6,000
<b>Total local risk based audit work</b>	<b>51,000</b>

**Note 3** - In addition to the statutory services provided as your Appointed Auditor, PwC has, during the year, provided non-audit services which fell outside of the Code of Audit Practice. These services, and the associated fees (excluding VAT), are detailed on pages 15 to 16 of this report.



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# *Appendices*

# *Appendix 1: Letter of representation*

## *PricewaterhouseCoopers LLP*

Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

Dear Sirs

### **Representation letter – Audit of Wolverhampton City Council’s (the Council) Statement of Accounts for the year ended 31 March 2015**

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Council give a true and fair view of the affairs of the Council as at 31 March 2015 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15.

I acknowledge my responsibilities as the Director of Finance (Section 151 officer) for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the Council and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Council with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

***Statement of Accounts***

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15; in particular the Statement of Accounts give a true and fair view in accordance therewith.
- All transactions relating to the 2014/15 financial year have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Council in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires adjustment or disclosure have been adjusted or disclosed.

***Information Provided***

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the Council's auditors, are aware of that information.
- I have provided you with:
  - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Council and its committees, and relevant management meetings;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

### ***Accounting policies***

I confirm that I have reviewed the Council's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the Council's particular circumstances.

### ***Fraud and non-compliance with laws and regulations***

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

I have disclosed to you:

- The results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- All information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the Statement of Accounts.
- All information in relation to allegations of fraud, or suspected fraud, affecting the Council's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- All known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Council conducts its business and which are central to the Council's ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving Councillors, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

The pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

### ***Related party transactions***

I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All transfer of resources, services or obligations between the Council and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

### ***Employee Benefits***

I confirm that we have made you aware of all employee benefit schemes in which employees of the Council participate.

### ***Contractual arrangements/agreements***

All contractual arrangements (including side-letters to agreements) entered into by the Council have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

### ***Litigation and claims***

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

### ***Taxation***

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give

rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Council queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the Council's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the Council or any associated company for whose taxation liabilities the Council may be responsible.

### ***Pension fund assets and liabilities***

All known assets and liabilities including contingent liabilities, as at the 31 March 2015, have been taken into account or referred to in the Statement of Accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2015 have been properly valued and that valuation incorporated into the Statement of Accounts.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the Statement of Accounts have been disclosed to you.

### ***Pension fund registered status***

I confirm that the West Midlands Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

### *Provisions*

Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the financial statements and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the Council's and the group's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the financial statements.

The provision of £12.4 million that we have included in our accounts for the potential liability for equal pay and back pay claims complies with International Accounting Standard (IAS) 37 and is supported, in good faith, by the external legal advice received.

This represents our best estimate of the most likely future costs to the Council and we have not received any other additional or contradictory advice that has not been shared with you.

The Council has determined a proper application of the statutory provisions for the neutralisation of the impact of Single Status provisions on the General Fund balance.

I confirm the Council has used appropriate measurement processes, including related assumptions, in determining the accounting estimate for the provision for business rates appeals in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) and disclosures related to this provision are complete and appropriate under the Code.

### ***Bank accounts***

I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

### *Assets and liabilities*

- The Council has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.
- The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets, except for those that are disclosed in the Statement of Accounts.

- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

### ***Investments***

I confirm that all significant assumptions made in relation to fair value measurement and disclosures are reasonable and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council and the group to the fair value measurements or disclosures.

I confirm that we believe the inclusion of the Council's investment in Birmingham Airport Holdings Ltd at £18.6 million is appropriate because:

- this materially reflects the latest valuation of the Ordinary Shares and preference shares provided as at the balance sheet date as provided by Solihull Council and BDO
- there remains in place a side agreement which restricts the sale of shares by all seven stake-holding councils and therefore; whilst the valuation given provides a best estimate of a price that could be achieved on the open market, the restrictions mean that the open market value (OMV) is always likely to overstate the value that any Council would actually be willing to pay. This is deemed particularly significant in the current economic climate when there is unlikely to be any Council with sufficient spare resources to purchase an additional share in the Airport - especially at an OMV;
- the terms of the work had been reviewed by all relevant Appointed Auditors;
- the methods followed are reasonable given the requirements of the Code; and
- the findings are fed by a number of factors and because many of these are judgements, every valuer is bound to make different assumptions but the assumptions taken do not appear unreasonable.

### ***Financial Instruments***

- All embedded derivatives have been identified and appropriately accounted for under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
- Where hedging relationships have been designated as either firm commitments or highly probable forecast transactions, I confirm that our plans and intentions are such that these relationships qualify as genuine hedge arrangements.
- Where fair values have been assigned to financial instruments, I confirm that the valuation techniques, the inputs to those techniques and assumptions that have been made are appropriate and reflect market conditions at the balance sheet date, and are in line with the business environment in which we operate.



### ***Using the work of experts***

I agree with the findings of Solihull Council and BDO experts in evaluating the Airport Valuation, regarding their valuation of our share of Birmingham Airport Holdings Ltd and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The Council did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

### ***Valuation of Property, Plant and Equipment***

I have considered indicators of impairment for our Property, Plant and Equipment asset base since the date of the most recent valuation and am satisfied that there are no indicators that the Council's asset base has been materially impaired.

I am satisfied that the gross internal floor areas and land acreage supplied to our internal valuation experts is complete, materially accurate and up to date.

*[This wording will be updated to include specific judgements taken in relation to the valuation of PPE once finalised. For example, the specific judgements relating to the valuation of council dwellings.]*

### ***Depreciation of housing stock***

The Council has assessed the impact of using the Major Repairs Allowance as an estimate for depreciation of council dwellings in the Housing Revenue Account and is satisfied that this amount is a reasonable estimate of the amount of depreciation charge for these assets.

### ***Completeness of Fixed Asset records on the General Ledger***

I am satisfied that the general ledger system is complete and that there are no material differences between the assets recorded on the Property Services Database and those recorded on the general ledger system (Agresso), that is used to populate the financial statements.

### ***Accounting for Academy Schools***

All schools that have transferred to Academy status have been removed from the appropriate balance sheet. All current school assets for which the future use is unknown have been valued at the most appropriate market value. No decisions have been taken about the future use of school assets that have not been reflected in their valuation.

***Minimum Revenue Provision (MRP)***

I am satisfied that the methods we applied to determine an annual revenue provision, and for splitting interest cost between the HRA and General Fund are appropriate, prudent and compliant with the requirements of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended by Statutory Instrument 2008 no. 414 s4).

***Deficiencies in internal control***

I have communicated to you all deficiencies in internal control of which I am aware.

***Subsequent events***

Other than those already disclosed, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

As minuted by the Council at its Audit Committee meeting on 21 September 2015

.....

Director of Finance (Section 151 officer)  
For and on behalf of Wolverhampton City Council

Date .....

## Appendix – Related Parties

In addition to the disclosed related party transactions within Note 8 to the 2014/15 Statement of Accounts, I confirm that the following is a complete list of the Authority's related parties:

Abbey National Group Pension Schemes Trustees Ltd	Black Country Housing Group
Advanced Childcare Limited	Black Country Partnership NHS Foundation Trust
All Saints Action Network	Blakenhall Temple
Alstom Transport	Bridgnorth Aluminium Ltd
AMA Training Services	British Heart Foundation
Ashfield Healthcare Limited	British Transport Police
Association of Black Country Authorities (ABCA)	Building Preservation Trust
Association of Local Democracy Agencies (ALDA)	Bushbury United Charities
Association of Retired Police Officers	Care in Bathing Ltd
Association of Teachers and Lecturers (ATL) Union	Central government
Base 25	Central Learning Partnership Trust
Bilston Remembered Cenotaph Group	Christ Church Junior School
Birmingham Airport Holdings Limited	City of Wolverhampton College
Birmingham and Midland Society for Genealogy and Heraldry	Community Trade Union
Birmingham City Council	Confederation of Passenger Transport
Birmingham City University International College	Conservative Party
Black Country Consortium	Co-operative Party
Wolverhampton City Council	

Coppice Performing Arts School  
CWU  
De Montfort University  
Department of Energy and Climate Change  
Diocese of Lichfield  
Dudley Metropolitan Borough Council  
Emma Bussey Charity  
English Heritage  
Envyus  
Ethnic Minority Council  
FBC Manby Bowdler LLP  
Fire Brigades Union  
Gambling Commission  
Gazebo Theatre in Education Company Ltd  
GMB Union  
Gunnebo UK  
H S Bagri  
Hampstead Friends Association  
Heath Town Senior Citizens Welfare Project  
Heritage Centre  
I54  
Wolverhampton City Council  
Improvement & Development Agency (IDEA)  
International Faith  
Jaguar Land Rover Limited  
JSB Properties  
Labour Party  
Labour Party of Wolverhampton & Bilston East  
Labour Party Wolverhampton Co-operative Party  
Lighthouse Media Centre  
Local Government Association  
Long Knowle Primary School  
Low Hill/Scotlands Local Neighbourhoods Partnership  
Mencap  
Midcounties Co-operative  
Midcounties Co-operative Funeralcare  
Money Advice Service  
NAJ/UWT  
National Express Ltd  
National Trust  
NHS England  
NHS Shropshire Clinical Commissioning Group  
NHS Walsall Clinical Commissioning Group

NHS Wolverhampton Clinical Commissioning Group

North-east Wolverhampton Academy

NUT

Our Lady & St Chads Sports College

Outside Centre PA

Penn and Merry Hill LNP

Pensions and Equal Opportunities Committee

Perry Hall Academy

Phil Bateman Consultancy

Prospect

Public and Commercial Services Union

QSA 9 Ltd

Rail and Maritime Transport Union

Rake Gate Primary School

Royal Mail Group Limited

Royal Mail Pension Fund

Royal Wolverhampton NHS Hospitals NHS Trust

Sewa Centre

Sharan Project

Shropshire County Council

Smestow School

Wolverhampton City Council

Society of Union Employees

Soroptimist International (Freemasons)

St Anns TRA

St Johns Ambulance - Wolverhampton Area

Staffordshire County Council

Tettenhall Wightwick Conservative Association

TFML (Education & Management Consultancy)

The Aspect Group of Prospect

The Parliamentary Advisory Council for Transport Safety

Thorpe Thompson

Ujamaa Ltd

Unison

Unite Union

University Colleges Union (UCU)

University of Wolverhampton

Walsall Healthcare NHS Trust

Walsall Metropolitan Borough Council

Wednesfield North Labour Party

West Midlands Ambulance Foundation Trust

West Midlands Fire and Rescue Authority

West Midlands Integrated Transport Authority (WMITA)

West Midlands Joint Committee

West Midlands Pension Fund

West Midlands Police and Crime Commissioner and Chief Constable

West Midlands Police and Crime Panel

Wightwick & Regis Enterprise Network

WILA

Windmill Factor Ltd

Woden Academy

Wolverhampton Afro Caribbean Resource Centre Ltd

Wolverhampton Citizens Advice Bureau

Wolverhampton Conservative Association

Wolverhampton Girls High School

Wolverhampton Grand Theatre Limited

Wolverhampton Homes Limited

West Midlands Integrated Transport Authority

Wolverhampton Labour Group

Wolverhampton Schools' Improvement Partnership

Wolverhampton South East Labour Party

Wolverhampton South East Liberal Democrats

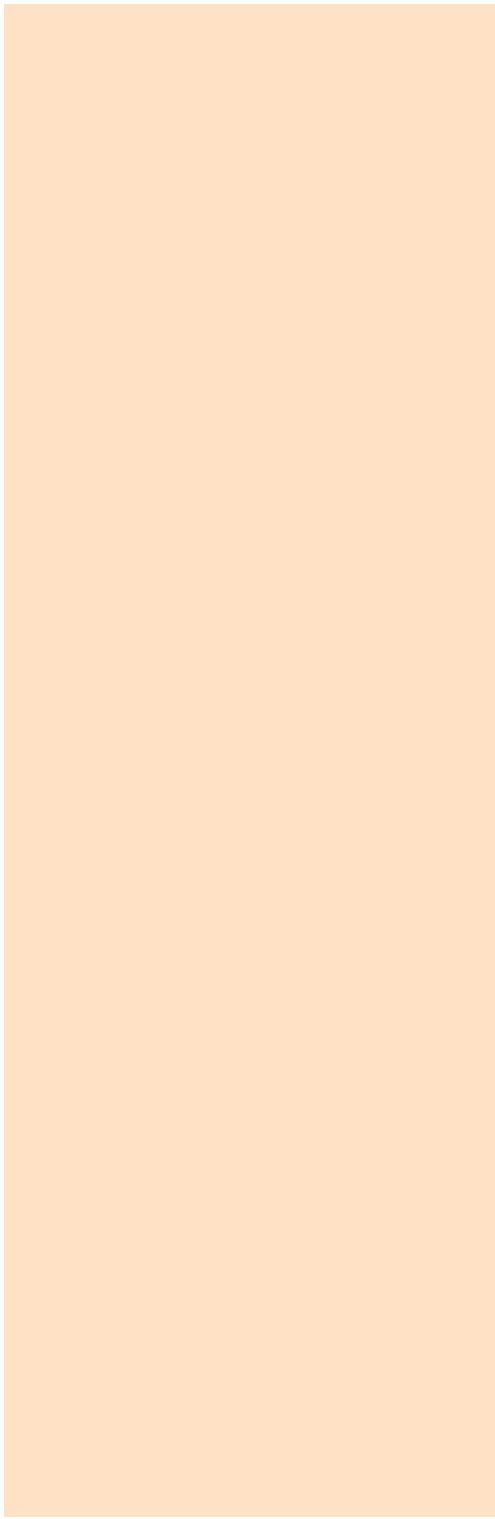
Woodthorne Builders Ltd

WV One

Yoo Recruit Limited

# *Appendix 2: Financial Resilience review*

[Pending findings from our testing of the Councils savings plans]







In the event that, pursuant to a request which Wolverhampton City Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Wolverhampton City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Wolverhampton City Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Wolverhampton City Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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