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Appendix 1

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Grant Thornton

The Audit Findings for City of Wolverhampton Council – Progress Report

Year ended 31 March 2020

28 September 2020

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of City of Wolverhampton Metropolitan Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance, to date.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council, such as administration of grants to businesses, closure of schools and car parks with additional challenges of reopening services under new government guidelines as well as redeployment of staff to work on all of the above. The Council sensibly undertook a trial run ahead of lockdown being announced to ensure that its systems were able to function remotely, which enabled teething problems in terms of access to systems to be worked through. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 22 June 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Council and audit staff are conducting the audit on a wholly remote basis. This has necessitated greater reliance on technology than usual for these remote working arrangements eg video calling, physical verification of assets and completeness accuracy of information produced by the entity. Remote working has brought challenges, which have been particularly pronounced in undertaking sampling work, where remote working has not quite been able to replicate the efficiencies of being in the same building and having discussions in person. The completion of our work by the deadline will be dependent on receiving satisfactory responses to all outstanding queries, but we thank officers for their cooperation and assistance to date.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work is in the process of completing. It began in mid-June and will be completed by the statutory deadline subject to satisfactory resolution of outstanding work and all outstanding queries. Our findings to date are summarised on pages 5 to 22. We have raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. The status of our work is set out on the following page and while we have not identified any matters to date that would require modification of our audit opinion, clearly this is subject to the completion of outstanding work. We will however be including an Emphasis of Matter paragraph, highlighted material uncertainties with regard to the valuation of land and buildings, housing, and investment properties due to the issues raised by the Council's valuers in their valuation reports. The issues raised are common across all Councils valuations. The use of an Emphasis of Matter paragraph is not indicative of any control weaknesses; it simply reflects the valuer's conclusions that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of City of Wolverhampton Council ('the Council') and the preparation of the group and] Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We are in the process of completing our risk based review of the Council's value for money arrangements. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We have identified nothing to date that indicates that the Council does not have proper arrangements to secure economy, efficiency and effectiveness in its use of resources but our work is still ongoing as at the time of writing. This is particularly the case in respect of the risk of the financial resilience risk we identified, where we are in dialogue with the Director of Finance and her team with respect to the ongoing impact of Covid on the Council's finances. We will update the Committee further on the conclusions from our work at its next meeting.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We expect to be able to certify the completion of the audit when we give our audit opinion but this will be dependent on the procedures pertaining to the whole of government accounts being complete which we undertake on behalf of the National Audit Office.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Status of the audit

The outstanding matters as at the time of writing are set out below.

- completion of our work on pensions, namely receipt of assurances from the auditor of the West Midlands Pension Fund and an explanation from the actuary for the £76.9m experience loss items shown in the reconciliation of the closing defined benefit obligation
- consideration of the work of the Council's valuers and sample testing of properties revalued to supporting information. This applies to other land and buildings as well as council dwellings
- final manager and engagement lead review of all of the above once completed
- our review of the value of the Council's shares in Birmingham Airport Holdings Limited. This involves input from BDO, other West Midlands Councils and our internal valuation team.

- review of component auditor's audit files in respect of Wolverhampton Homes Limited and City of Wolverhampton Housing Company Limited to give us assurance over the figures used for the consolidation of the group accounts
- completion of our work on the value for money conclusion
- completion of our work on the Council's financial instrument disclosures
- consideration of the evidence provided in support of journals testing
- completion of our assets existence testing

- completion of our review of pooled budget disclosures, minimum revenue provision, movement in reserves statement, expenditure and funding analysis, and other interest payments
- receipt of the Council's WGA pack and completion of our procedures thereon. Deadlines for cycles 1 and 2 are 30 September and 4 December respectively
- obtaining and reviewing the updated financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Audit approach (continued)

We have had to alter our audit plan, as communicated to you on 22 June 2020, to reflect our response to the Covid-19 pandemic.

- We set out the key aspects of our proposed response to the significant risk we identified (which are those risks that have a high risk of material misstatement). This included action such as working with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and ensuring sufficient, corroborating audit evidence could be obtained
- We updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any new VfM risks in relation to Covid-19.

Our approach to materiality

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

Materiality levels have been updated to those reporting in our audit plan due to gross revenue expenditure in the draft financial statements being different to the forecasts upon which we had based our planning materiality on. Updated materiality thresholds are shown overleaf alongside the thresholds originally reported to you in our Audit Plan shown in brackets.

Summary

Our approach to materiality

We detail in the table below our determination of materiality for City of Wolverhampton Council. The amounts in '()' relates to the materialities used in the prior year.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	12,500,000 (13,100,000)	12,400,000 (13,000,000)	We determined materiality for the audit of the Council's financial statements as a whole to be £12,500,000, which is approximately 1.5% of the Councils gross operating expenses. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.
Performance materiality	9,375,000 (9,825,000)	9,300,000 (9,750,000)	We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the financial statements. • Our consideration of performance materiality is based upon a number of factors: • We have not historically identified significant control deficiencies as a result of our audit work • We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment • There has not historically been a large number or significant misstatements arising as a result of the financial statements audits at the Council • Senior management and key reporting personnel in the finance function has remained stable from the prior year audit
Trivial matters	625,000 (655,000)	620,000 (650,000)	We determined the threshold at which we will communicate misstatements to the Audit and Risk Committee to be £620,000, which is 5% of materiality.
Materiality for specific transactions, balances or disclosures	Remuneration of senior officers: £40k		In accordance with ISA320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19	We: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported specifically as a result of Covid-19 but they have been revised to reflect the draft gross revenue expenditure. The draft financial statements were provided on 22 June 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. • engaged the use of auditor experts in respect of PPE valuations – refer to pages 14 to 16 for further detail on this work. The following issues arose from our work. **Valuation** - in their reports, the Council's valuers have confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. The Council have reflected this uncertainty in Note 15C to the financial statements and we will refer to these material valuation uncertainties in our audit report. **Disclosures** - we have requested that the Council updates its disclosure of post balance sheet events, to include information relating to funding received for COVID since 1 April 2020 and any other income loss or increases in expenditure.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition. • opportunities to manipulate revenue recognition are very limited. • the culture and ethical frameworks of local authorities, including the Council and Fund, mean that all forms of fraud are seen as unacceptable. **Therefore we do not consider this to be a significant risk for City of Wolverhampton Council's single entity accounts or the group accounts**. We have however: • evaluated the Council's accounting policy for recognition of revenues for appropriateness • performed substantive testing on material revenue streams; and • reviewed unusual significant transactions. Our audit work has not identified any issues in respect of improper revenue recognition though note that as per page 5 some of our work is still underway and therefore this conclusion could be subject tot change.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. The main mechanism through which this could occur is through the posting of manual journals amending the reported financial performance. We therefore review the controls established relating to manual journals, including those for authorisation of manual journals.	We have: • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness • obtained a full listing of journal entries, identify and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions. We identified from our review of the journal control environment in previous years that both the Chief Accountant and the Director of Finance had the ability to post journals. From our work during this year's audit we note that journal posting rights for these individuals have now been removed. However, there was a period during the financial year ending 31 March 2020 whereby the ability to post journals still existed. As this does not constitute best practice we engineered our testing to obtain an appropriate level of assurance that this weakness did not give rise to a possible material misstatement. From the testing performed to date we are content that these individuals did not post any journals during the period. From the sample testing of journals done to date we have found that they were appropriate, eligible and valid, and can be agreed to supporting evidence. However as per page 5 some of our work is still underway and therefore this conclusion could be subject to change. For more in-depth consideration of the Council's judgements and estimates please refer to pages 14 to 19.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Authority revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of valuers to estimate the current value as at 31 March 2020. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. We do not consider this risk to apply to the other components within the group as neither Wolverhampton Homes Limited or City of Wolverhampton Housing Company Limited has land and buildings, which it carries as property, plant and equipment	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuations were carried out • tested on a sample basis revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements. **Audit Findings** We are in the process of challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We are also evaluating the assumptions made by management for any assets not revalued at 31 March 2020, including those in the HRA, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value. In their reports, the Council's valuers have confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. The Council have reflected this uncertainty in Note 15C to the financial statements and we will refer to these material valuation uncertainties in our audit report as an emphasis of matter. **Council Dwellings revaluation** The valuation report for Council dwellings does not reflect Council Dwelling Asset additions and disposals made during the year. The additions relate primarily to new build properties, and the Council have attributed their own value to these properties, by using 2015 valuation data as a proxy. In the draft financial statements the carrying value on the balance sheet is the valuation per the valuer, plus additions and less disposals not notified to the valuer, plus enhancement expenditure of £21.4m incurred during the year. While the Council has followed the same process as last year we have asked the Council to inform the valuer of these subsequent changes and expenditure by requesting a revised valuation report to determine the impact if any on the valuation of Council Dwellings at 31st March 2020. **Investment Property and Land and Building revaluation** Similarly the amount recognised in the balance sheet for those assets subject to valuation in 2019/20 is the valuer's valuation plus enhancement spend in the region of £14m. There is also £6.2m of spend on new assets during

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings (continued)	**Investment Property and Land and Building revaluation** (continued) 2019/20 which has not been subject to valuation and is therefore being carried at historic cost, (the largest element of which is £5.2m for Oxdale Primary School). As with Council Dwellings, while the Council has followed the same process as last year the Council have informed their valuer Bruton Knowles of the level and nature of the enhancement/new asset expenditure and requested that they revise their valuation to take account of this in year spend. **Investment Property asset misclassification** A reconciliation between the valuers report for Investment Property and the Asset Register has identified one asset which has been incorrectly included within the Other Land and Building category, instead of Investment Property. Other Land and Buildings are therefore overstated by £713k, and Investment Property understated by the same amount. This is a disclosure correction only and has no impact on the Council's surplus position **Revaluation reserve** The workpaper provided by the Council in support of its revaluation reserve shows a balance of £145.9m as at 31 March 2020. This is £2.4m larger than the closing revaluation reserve balance in Note 13 of the draft financial statements. As this variance is above our levels of tolerance it has been reported to the officers who are in the process of investigating. **Conclusion** At the time of writing this report, our detailed work on the Council's valuations is ongoing. There are significant queries that we are still discussing with the Council's valuer in relation to the approach used and assumptions applied. In addition, we will complete detailed testing to agree the key inputs for a sample of valuations to supporting evidence, and consider the movements year-on-year. This work is not complete, and may result in further findings.
Valuation of the pension fund net liability The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£615 million in the balance sheet) and the sensitivity of the estimate to changes in key assumptions. We identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assessed the accuracy and completeness of the information provided to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of the pension fund net liability (continued)	• completed procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within that report In agreeing the statement of accounts to the actuarial reports a number of differences were identified. While the primary statements had been updated to reflect a revised actuary report received by the Council, Note 9 had been erroneously omitted form this update. Note 9 has now been corrected accordingly. The Council's actuaries have reported a net defined liability comprising significant "experience "items of £76.9m These are material and therefore we are investigating the breakdown of this amount to determine that items included are appropriate. We are in dialogue with our counterparts in the pension fund who have liaised with the actuary and comments have been provided which we are in the process of considering. At the time of writing this report, the impact of the Goodwin judgement on LGPS is being considered by the NAO and their auditor expert PWC, and this may result in further audit queries. Our audit work has not identified any other issues in respect of the valuation of the Council's pension fund net liability.
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	We noted in our audit plan that the public sector will implement this standard from 1 April 2020. The guidance has subsequently been amended to be implemented from 1 April 2021. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 disclosures of the expected impact of IFRS 16 should be included in the Council's 2019/20 financial statements. The Council has included its anticipated impact in Note 15E to the financial statements. We have had sight of the registers that the Council has put in place to track the leases held and the resultant impact the change in accounting standards will have. It has estimated that there will be a non-material difference of £2.8million on the balance sheet which will increase the Council's liabilities. The Council is anticipating a negligible impact on expenditure. We have no issued to report in respect of this risk.

Significant findings arising from the group audit

Along with the full audit procedures on the Council's financial statements, we are required to complete specific procedures on transactions and balances within the financial statements of other bodies in the group, where those transactions and balances are material to the group's financial statements.

Component	Component auditor	Findings	Group audit impact
Wolverhampton Homes Limited	Grant Thornton UK LLP	We requested that the component auditor undertake work in the following areas to provide us with the necessary assurance for the group audit: • Valuation and allocation pertaining to the net pension liability as this is a figure which is material to the group accounts • Consideration of the impact of Covid-19 on the financial statements as the risk is pervasive to the group accounts as a whole.	Conclusion outstanding pending our review of the component auditor's work.
City of Wolverhampton Housing Company Limited	Grant Thornton UK LLP	We requested that the component auditor undertake work in the following areas to provide us with the necessary assurance for the group audit: • Valuation and existence of inventories as this is a figure which is material to the group accounts • Consideration of the impact of Covid-19 on the financial statements as the risk is pervasive to the group accounts as a whole.	The audit work by the component auditor has not yet been undertaken as at the time of writing (it is due for completion during September and early October) and therefore our conclusion is outstanding pending completion of this work and our review thereon.

We have reperformed both the group balance sheet and group CIES consolidations, and completed targeted audit procedures on material balances and consolidation adjustments as referred to above.

In addition we have reviewed the group cash flow statement and group MIRS for consistency with other work performed.

Our work on the consolidation process has not identified any issues to date to bring to your attention.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Council Dwellings Draft: £838m Final: TBC	The Council owns in excess of 22,000 properties and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Jones Lang Lasalle to complete the valuation of these properties. The total net book value of Council Dwellings was £838m, a net increase of £87m from 2018/19 (£751m). Management and their valuer have considered a range of available indices, and have used this to determine an appropriate estimate for the indexation of the Council's dwellings. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosure of this in Note 15C.	• We have engaged our own valuer to assist with our work and challenge in this area. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • The housing stock has been divided using the external valuer's judgements and knowledge on 'Local Connections' to ensure that the stock is subdivided into groups that is deemed to be reasonable homogenous in value. This is a slight amendment to the methodology used in previous years which was based on asset group. The change has been applied in order to provide amore granular level of detail than was previously the case • We have considered the indices that the valuer has used in performing the valuation and are discussing the appropriateness of these with the Council and its valuer. • Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 15C in our audit report. • We have considered the completeness and accuracy of the underlying information used to determine the estimate. Our work in this area is ongoing and we are actively engaging with the Council's valuer on these matters. In particular we have queried the significant increase between last years valuation and this. The figure of £87m includes additions and disposals: the revaluation increase alone is £56m which is still significant at 7.5%. We have asked the Council, in conjunction with its valuer, to provide evidence that the change in revaluation is due to a legitimate increase in value, and not indicative of errors either in this year's or the prior year's valuations.	● (TBC)

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Other Land and Buildings Draft: £444m Final: TBC	The Council has engaged Burton Knowles to complete the valuation of these properties. The Council requires assets in excess of £1m to be valued annually and the remaining assets are subject to a full, formal valuation on a five yearly cyclical basis. The Council seeks assurance that any assets not valued as at 31 March 2020 are not being held at a value which would be materially different to if they had been valued as at the balance sheet date. They do this through a desktop review undertaken by their valuers to test for any material movement in market value. Other land and buildings revalued in 2019/20 comprised specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings revalued in 2019/20 are not specialised in nature and are required to be valued at existing use value (EUV) at year end. The total net book value of Other land and buildings was £444m, a net decrease of £11m from 2018/19 (£455m). Management and their valuer have taken into account available market data, and considered a range of available indices, and have used this to determine an appropriate estimate for the indexation of the Council's land and buildings. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosure of this in Note 15C.	• We have engaged our own valuer to assist with our work and challenge in this area. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • There have been no changes to the valuation method this year. • We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. At the time of writing this report, we are still discussing the appropriateness of the indices and assumptions used by the Council's valuer with the valuer. • Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 15C in our audit report. • We have considered the completeness and accuracy of the underlying information used to determine the estimate. Our work in this area is ongoing and we are actively engaging with the Council's valuer on these matters.	● (TBC)

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Investment Property Draft: £35m Final: TBC	The Council has a number of assets that it has determined to be investment properties. Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date) so these assets are valued every year at 31 March. The Council has engaged Bruton Knowles to complete the valuation of these properties. The year end valuation (net book value) of the Council's investment property portfolio was £35m a net decrease of £0.7m from 2018/19 (£34.3m). Management and their valuer have taken into account available market data at 31 March 2020. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's Investment Property at 31 March 2020 as a result of Covid-19. The Council has included disclosure of this in Note 15C.	• We have engaged our own valuer to assist with our work and challenge in this area. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • There have been no changes to the valuation method this year. • Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 15C in our audit report. • We have considered the completeness and accuracy of the underlying information used to determine the estimate. • At the time of writing this report, we are in the process of testing supporting information for the detailed calculations of property valuations provided by the Council's valuers in order to perform testing to confirm that the key inputs in the valuations are accurate. Our work in this area is ongoing and we are actively engaging with the Council's valuer on these matters.	(TBC)

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability Draft: £615m Final: TBC	Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £19m net actuarial gain during 2019/20 (£25m for the group as a whole). The Council's net pension liability as at 31 March 2020 is £615m (£649m for the group) comprising obligations under the West Midlands Pension Fund Local Government pension scheme. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return.	• We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council. • We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the West Midlands Pension Find valuation as it applies to City of Wolverhampton Council.	● (green)

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35% (rounded up in accounts to 2.4%)	2.35%	● (G)
Pension increase rate	1.90%	1.85%-1.95%	● (G)
Salary growth	2.9%	2.85%-2.95% scheme-specific	● (G)
Life expectancy – Males currently aged 45 / 65	45: 23.8 65: 21.9	22.8 - 24.7 21.4 - 23.3	● (G)
Life expectancy – Females currently aged 45 / 65	45: 26.0 65: 24.1	25.2 – 26.2 23.7 – 24.7	● (G)

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We note from our auditor's expert that Barnett Waddingham have not made allowance for the actual level of pension increases between triennial valuation dates. However, they note that when compounded, assumed increases and actual increases have generally been similar over this period with differences of less than 0.5% (with a broadly equivalent impact on

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability	(continued)	• liabilities). As such where material levels are at least 0.5% of the IAS19 liabilities they are comfortable that the approach taken of not allowing for actual pension increases is unlikely lead to a material difference in the liabilities as at 31 March 2020. Total IAS19 liabilities for Wolverhampton are £1,669m for LGPS and £50m for the discretionary scheme. This gives total liabilities of £1,719m. Materiality for the Council is £12.4m. This is 0.72% of total liabilities. As this is greater than 0.5% of the IAS19 liabilities stipulated by PwC in their report we are satisfied that it is unlikely that no allowance for actual level of pension increases will lead to a material difference. • We have confirmed that the Council's share of the pension scheme assets is in line with expectations. • Disclosure of the estimate in the financial statements is considered adequate. At the time of writing we are waiting for information from the pension fund auditor and cannot therefore conclude on our work. Additionally, the Council has brought to our attention an error of approximately £11m in the liability which we are in the process of auditing.	● (green)

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	The Council have an investment in Birmingham Airport Holdings that is valued on the balance sheet as at 31 March 2020 at £13m which is a decrease of £9m on the prior year. The shares are not quoted on a stock exchange and are valued using non observable data and therefore a review is commissioned to. As the investment is not traded on an open market and the valuation of the investment is subjective. In order to determine the value, management commission a review to ascertain the valuation of the investment as at the balance sheet date using an earnings based approach. Earnings multiples are based on an average of the lower-quartile earnings and transaction multiples for the industry, in this case, airports.	The valuation is led by Solihull Metropolitan Borough Council on behalf of all the Wests Midlands Councils who hold such shares. Due to Covid-19 pandemic there is more uncertainty than usual on such investments, particularly given that this investment is in the airport industry which has been hit hard by Covid-19 and the resulting restrictions that have been placed on tourism and travel industries. This work is still underway as at the time of writing, but we note that a decrease in valuation is not unexpected.	(TBC)
Other accruals and estimates	The Council continues to apply estimates and judgements in a number of areas, such as: • accruals of income and expenditure • recognition of school assets • the preparation of group accounts	• The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting • Disclosure of the estimates in the financial statements is considered to be adequate. • As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balance within these have bee discussed with management in detail. • We have found no material misstatements in the financial statements relating to these balances from our work to date.	(green)

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings – going concern

Our responsibility

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

Going concern commentary	Auditor commentary
Management's assessment process Preparation of income and expenditure budgets for the year ended 31 March 2021	Going Concern is defined as "the concept that the local authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.' The Authority's financial statements are prepared on going concern basis on the grounds that budgets are in place and are being measured and managed to ensure that liabilities can be met as and when they fall due. Audit procedures undertaken have not found any indication of the existence of going concern events or conditions which may cast significant doubt on the Authority's ability to continue as a going concern. The Council budget more than a year in advance: at the Council meeting in March the 2019/20 budget was agreed, which is a balanced budget without the use of reserves. The report accompanying the budget notes that work will start on developing budget reductions and income generation proposals for 2020/2021 onwards in line with the Five Year Financial Strategy, and progress will be reported to Cabinet in imminently
Work performed	It has been a challenging year due to the Covid-19 pandemic and the impact of this has been administration of grants to businesses, closure of schools and car parks with additional challenges of reopening services under new government guidelines, and the need to free up capacity of teams in addition to normal responsibilities. The Council is facing significant challenges, but despite this has reported a net surplus of £2m. It is reported in the Narrative Report that while the Council has been able to set a balanced budget for 2020/21 without the use of general reserves, the Council forecasts that it will need to save a further £15.6 million by 2021/22, rising to around £20 million over the medium term. The 'Draft Budget and Medium-Term Financial Strategy 2021-2022 to 2023-2024' to Cabinet in July 2020 reported that this gap had been partly addressed and there was now a projected budget deficit of £8.7 million for 2021/22 based on the Council's Five-Year Strategy. Subject to finding and developing options to bridge this gap, the Council does not anticipate needing to use (nor would it want to use) its general fund reserves to pay its expenses in 2021/22 and has set a balanced budget for 2020/21. We have reviewed the budgetary processes in place and would note the following: • We are satisfied from our review of the Council's reserves balance that it has sufficiency of usable reserves (i.e. general fund and earmarked reserves) to bolster its finances should its savings plans not be delivered, but clearly reserves can only be used once. • The Council is rightly concerned that there are a number of unknowns in its funding, particularly the accuracy with which it can project losses in the collection fund during 2021/22 as the knock-on effects of the downturn in economy impact the ability of tax payers to pay their council tax, and for business to pay their busines rates. However, in and of itself, this is not considered to cast significant doubt on the Council's ability to continue as a going concern. We therefore agree with the Council's conclusion that the going concern assumption is appropriate.

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Risk Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. However, the Council had over-disclosed in this note and included details of transactions with organisations and individuals which did not meet the definition of related parties. This has been revised and a recommendation raised to ensure that in the preparation of the note only organisations and individuals which meet the definition fo related parties are included.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Council, including specific representations in respect of the Group and will be made available to the Committee at its next meeting. If we determine that additional specific representations are required we will draw the Committee's attention to those representations in our updated Audit Findings Report.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to those organisations with which it banks, invests and borrows. Permission was granted and the requests were duly sent. All of these requests were returned with positive confirmation..
Disclosures	See Appendix C for the most significant amendments made to disclosures. In addition these a small number of amendments were made to improve clarity for the reader. As work is still underway there may be more items subsequently added to this list.
Audit evidence and explanations/significant difficulties	The impact of Covid-19 has had a number of effects on the audit, the most significant of which are summarised below. **Remote working** When the audit was first planned, it was not anticipated to be carried out remotely and this has been challenging for both teams. This has been particularly pronounced in undertaking sampling work and working through queries in relation to the PPE valuations, where remote working has not quite been able to replicate the efficiencies of being in the same building and having discussions in person. **Financial resilience and future funding arrangements in relation to Covid-19 costs** Our consideration of the Council's financial resilience and sustainability has been more complex due to both the general level of uncertainty but also because it is not clear how long and in what form the current Covid-19 funding arrangements will be in place, and what further funding may be provided. Despite the challenges, all information and explanations requested from management has been, and continues to be, provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Inconsistencies have been identified but have been adequately rectified by management. Specifically, as group accounts are produced, the AGS is required to detail what governance arrangements are in place across the whole group and therefore we recommended that management add information to its statement to ensure that appropriate coverage was made of City of Wolverhampton Housing Company Limited, which was previously absent from the statement. A recommendation has been raised in this regard to ensure that this is considered as a matter of course in the preparation of future Annual Governance Statements. We plan to issue an unmodified opinion in this respect, though we will be in dialogue with officers to ensure that the Narrative Report and any other information is updated as deemed necessary as part of our completion procedures to reflect events since the draft financial statements were produced.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Our work is not yet completed as at the time of writing though is planned to be completed by the end of November. However, this is subject to the receipt of the group instructions from the NAO which have not yet been provided (though are expected to be received in September).
Certification of the closure of the audit	We do not expect to be able to certify the conclusion of the audit yet as we do not anticipate having completed our work on the Council's Whole of Government Accounts return. The deadline for this submission has not yet been confirmed. Additionally, we are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. As the Pension Fund has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements.

Value for Money

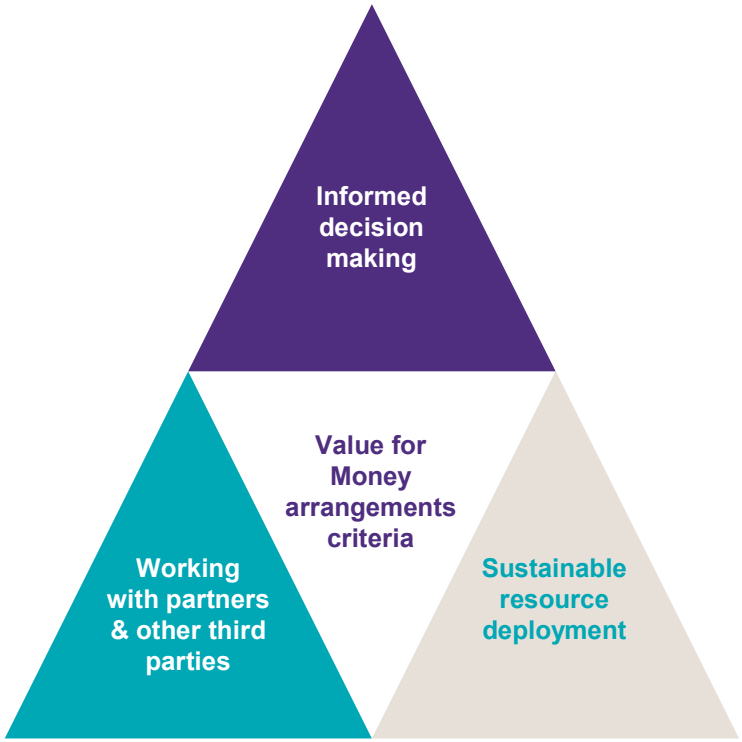
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 23 March 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We are carrying out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The outturn from 2019/20 compared to forecast and savings for 2020/21 updated to reflect likely shortfalls in income as a result of COVID.
- The progress made in relation to the Civic Halls Refurbishment and the Council's response to delays caused by COVID
- The Councill's approach to Strategic Asset Management and its progress during the year, in particular its approach to rationalisation and use of partnership working in realising its aims

This work is still underway as at the time of writing. We will provide the Committee with details of our work and our proposed conclusion at next meeting.

Overall conclusion

Our work is still underway as at the time of writing. We will provide the Committee with details of our work and our proposed conclusion at next meeting.

Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit and Non-audit services

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

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant 2018-19	2,750	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The work in respect of the year ending 31 March 2020 has not been agreed as at the time of writing in respect of Housing capital receipts but the purposes of completeness we disclose here our fees for the 2018/19 work which were accrued for in the 2018/19 financial statements but paid during the 2019/20 financial year. The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,750 in comparison to the total fee for the audit of £170.210 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed. Furthermore in consideration of the materiality of the amounts involved to our opinion there is an unlikelihood of material errors arising, Lastly the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Teachers Pension Return	4,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,500 in comparison to the total fee for the audit of £170,210 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed. Furthermore in consideration of the materiality of the amounts involved to our opinion there is an unlikelihood of material errors arising, Lastly the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	16,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £16,000 in comparison to the total fee for the audit of £170,210 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed. Furthermore in consideration of the materiality of the amounts involved to our opinion there is an unlikelihood of material errors arising, Lastly the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Action plan

We have identified 2 recommendations to date for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Annual Governance Statement** The Annual Governance Statement is required to set out the governance arrangements in respect of the group, and not just the Council.	We recommend that management keep its group boundary under review and ensure that future Annual Governance Statements include details in respect of all consolidated entities within the group accounts. **Management response** Agreed – we will keep our group boundary under review and ensure that this is reflected in future Annual Governance Statements and that they include details in respect of all consolidated entities within the group accounts.
Medium	**Related Parties** We discussed with officers during planning, the need to revisit the related parties note as it involved over-disclosure thereby leading to the risk that material and pertinent information was being obscured. There are specific criteria set out in the Code at section 3.9.2, which must be met in order for a related party to be defined as such and the preparation of the related parties note needs to have mind to this guidance.	The related parties note in the financial statements has been revised following audit feedback, and we recommend that the Council enhance its closedown procedures to ensure that only related parties meeting the definitions are considered, and only those transactions deemed to be material with such parties are disclosure. **Management response** Agreed – this has been taken onboard.

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2018/19 financial statements, which resulted in 2 recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The Council amended its date of valuation from 31 March to 1 April, meaning that both valuers have provided their valuations as at 1 April 2018. We undertook additional work to satisfy ourselves that the values in the balance sheet as at 31 March 2019 were not materially misstated, but we recommended that the Council revisit this decision for the year ending 31 March 2020.	We recommended that the Council either perform a formal exercise each year to either ensure that all land and buildings reflect market value as at the year end where required (which includes investment and surplus properties), or otherwise are able to demonstrate that the value at which they are carried in the accounts is not materially misstated, either individually or in aggregate. Management response was to change the valuation date to the end of December, in order to reduce the risk of material misstatement. The revised valuation date for Other Land and Buildings as carried out by the Council's external valuers, Burton Knowles was 1 January 2020 which therefore mitigated the risk identified in the prior year recommendation. The valuation date for Council Dwellings as carried out by the Council's external valuers, JLL, was 31 March 2020.
✓	We identified from our review of the journal control environment that both the Chief Accountant and the Director of Finance have the ability to post journals. In our opinion these posting rights are incompatible with the duties of these posts. The Council has a large finance team and we would therefore expect all postings to the ledger to be executed by these lower levels of staff. Directors and Deputies have direct responsibility for the financial performance of the Council and journals posting access is considered to be an enabling factor to the risk of management override of controls. We therefore recommended that this access was eliminated.	This access has been duly eliminated, although we note that due to timing of when the recommendation was raised it was not removed until during the 2019/20 financial year. As noted in our response to the risk of management override on page 9 we took that into account as part of our testing procedures.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

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

Impact of adjusted and unadjusted misstatements

Any adjusted and unadjusted misstatements agreed with management and made to the draft accounts will be set out in the next iteration of our Audit Findings Report.

Misclassification and disclosure changes

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

References to “TBC“ reflect that we have agreed with management that these amendments are to be made by the Council but for ease of processing all adjustments will be made at once. Therefore confirmation that they have been carried out as expected is shown as “TBC” pending receipt of the final version of the financial statements, on completion of the audit work.

Disclosure omission	Detail	Adjusted?
IFRS15 disclosures	In accordance with IFRS 15 authorities should disclose qualitative and quantitative information about the nature, amount, timing and uncertainty of revenue and cash flows generated from contracts with service recipients. The disclosure in the draft financial statements notes that the Council does not believe there are any revenue streams that are material impacted but when assessing if the disclosures specified in Code 2.7.4 are required, the relevant consideration is whether the transactions or balances are material, not whether the implementation of IFRS 15 results in a materially different amount of revenue. The Council are considering the amendments required to this disclosure.	TBC
Trust Funds	Trust Funds disclosed at Note 12 are material. The Council should include an Accounting Policy for Trust Funds to explain how they are accounted for.	TBC
Inventories	This accounting policy needs some additional explanation as currently it refers to inventories such as stock/consumables but the material inventories held by the group relate to work in progress house builds, and therefore this accounting treatment also needs to be explained in the policy.	TBC
Critical Judgements	The Code requirement of critical judgements is that an authority shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 3.4.2.90), that management has made in the process of applying the authority’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements. The disclosure should explain what the judgement is, not just a statement of accounting policy and therefore the Council are considering enhancement so this disclosure to comply fully with the Code.	TBC
Employee benefits	In Note 1G employee benefit line expense is reported as £234m which includes recharge cost centres in error. The revised amount after exclusion of these cost centres is £228m. Similarly the 'Other service expenses' line is understated by £7m and should be £420m, instead of £413m.	TBC

Audit adjustments

Disclosure omission	Detail	Adjusted?
Fees and charges and other service income	In Note 1G the 'Fees and charges and other service income' line includes grant income of £264m. This should properly be disclosed on the separate 'Government grants and contributions' line at Note 1G.	TBC
Revaluations table	In the draft accounts the revaluation table had not been updated to include revaluations performed as at 31 March 2020. This should be amended to ensure consistency with the year end valuations.	TBC
Revaluations table – Other Land and Buildings	Further to the above, the revised table discloses OL&B assets revalued during 2019-20 totalling £422m. This amount includes non enhancement capital additions totalling £6.253m that have not been subject to valuation, and are effectively held at historical cost. The table should be amended to recategorise these assets between revalued at 31st March 2020 and carried at historical cost.	TBC
Collection Fund	The Collection Fund Statement disclosure does not meet statutory requirements as per paragraph 3.6.3.1 of the Code, figures need to be disclosed separately for Council Tax and Non-Domestic Rates rather than a single 'total' column	TBC
PFI	Movements on the balances for the property plant and equipment assets for Highfields & Penn Fields School, and St Matthias School are analysed as relating solely to depreciation. The line narrative should be amended as the movement is a combination of depreciation and revaluation movements.	TBC
Prior year comparatives	Where figures have been restated for comparative purposes, appropriate narrative needs to be added to the note to explain that to the reader. Prior year comparatives at Note 6A are not consistent with the amounts reported in the audited 2018/19 statement of accounts. There are variances of £2.8m, £10.1m and £12.7m on the Central Government, Other Local Authority and External to Government lines. Prior year comparatives at Note 6C are not consistent with the amounts reported in the audited 2018/19 statement of accounts. There are variances of £27.8m, £1m and £29m on the Central Government, Other Local Authority and External to Government lines. Prior year comparatives at Note 10C Leases and Lease-Type Arrangements are not consistent with amounts reported in the 18-19 audited accounts. Prior year comparatives within the grants disclosure table on pages 111-113 are not consistent with amounts reported in the 18-19 audited accounts. Variances include (i) Head Start Wolverhampton £2.7m, Other grants £0.7m, and a variance on the overall total reported of £3.1m. Prior year comparatives within the Other related parties table on pages 113-115 are not consistent with amounts reported in the 18-19 audited accounts. Differences can be seen for Royal Wolverhampton Trust, West Midlands Combined Authority, West Midland Pension Fund, and the overall total for expenditure and income.	TBC
Grants	Note 2H Grants reports total grants credited to the CIES of £362m. The sum of the individual grants disclosed however is £361m and therefore does not agree.	TBC

Audit adjustments

Disclosure omission	Detail	Adjusted?
Capital adjustment account	The sum of entries in the Capital Adjustment column is reported as -£458m, but actually sums to -£454m.	TBC
Investment properties	There is a balance of £1.7m for accumulated depreciation brought forward at 1st April 19, and carried forward at 31 March 2020. Investment Properties are valued in full every year, and this accumulated depreciation should therefore be written back out on revaluation. An equal and opposite entry will be required within the cost section of Note 8.	TBC

Audit adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting	Impact on current year
We identified errors within the our testing of cut-off of expenditure resulting in over accruals amounting to £60k and under accruals amounting to £2,425k These two errors offset to a net underaccrued amount of £2,365k..	2.4	-2.4	2.4	Not considered to be material	Not considered to be material and superseded.
The Council undertook its valuations as at 1 April 2018, which the exception of Council Dwellings which were valued as at 31 March 2019. We have considered the valuations of all assets and compared them to market indices. We have identified a potential understatement of £12.2m.		Non-current assets £12.2m Revaluation reserve £12.2m	-	Not considered to be material	Superseded by valuation at 31 March 2020.
Understatement of PFI borrowings by £2.236m which if adjusted for would have the effect of increasing the Council's liability		-£2.2		Not considered to be material	Superseded by work carried out as part of current year audit.
An understatement of pension liabilities by approximately £1.7m in relation to the GMP pension ruling		-£1.7		Not considered to be material	Superseded by work carried out as part of current year audit.
Overall impact	£2.4	£5.9	2.4		

Fees

We set out below our proposed fees for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	170,210	TBC
Audit of subsidiary company Wolverhampton Homes Limited *	28,285	TBC
Audit of subsidiary company City of Wolverhampton Housing Company Limited (trading as WV Living) *	22,500	TBC
Audit of subsidiary company Yoo Recruit Limited (not consolidated on grounds of materiality and not therefore not included in auditor's remuneration note)	13,000	TBC
Total audit fees (excluding VAT)	**£230,885**	**£TBC**

* The Council has accrued for these fees under 'Additional Work'.

Fees for audit-related services services	Fees £'000
• Housing capital receipts 2018-19 **	2,750
• Housing Benefit Subsidy Claim	16,000
• Teachers Pension Return	4,500
Total excluding those fees to be confirmed	**23,250**

** The audit-related services in relation to housing capital receipts has yet to be planned in respect of the year ending 31 March 2020 and therefore the fees are yet to be confirmed. The fee charged in respect of the 2018-19 financial year was £2,750. As at the balance sheet date and the date of writing we have not been appointed in respect of the 2019-20 financial year, the Council have not included the fee in their financial statements.

There were no non-audit services provided.

The fees reconcile to the financial statements as follows (extract from Note 26 of the financial statements):

2018-2019 Restated £m	Description	2019-2020 £m
0.158	External Audit (Council)	0.170
0.023	Certification of Grant Claims and Returns	0.021
0.047	Additional Work (*)	0.051
0.228	**Total**	**0.242**