Grant Thornton

The Audit Findings for City of Wolverhampton Council – Update Report

Year ended 31 March 2020

26 November 2020

Contents

Your key Grant Thornton team members are:

Mark Stocks
Key Audit Partner
T: 0121 232 5437
E: mark.c.stocks@uk.gt.com

Nicola Coombe
Senior Manager
T: 0121 232 5206
E: nicola.coombe@uk.gt.com

Matthew Berrisford
Assistant Manager
T: 0121 232 5352
E: matthew.j.berrisford@uk.gt.com

Headlines

This report updates the Audit and Risk Committee with progress made in terms of our audit findings since the first iteration of the report, which was discussed at the Committee on 28 September 2020

The 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, 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 27. 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 the 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.

Financial Statements

We will also be including an Emphasis of Matter paragraph regarding Pensions PPE valuation. As above the Pension funds valuer has indicated that due to Covid-19 that there are uncertainties in the accuracy of their valuation of investment property .

The other key issues identified by our work were:

- As part of our work in comparing valuation movements year on year it was identified that the Council's valuer had provided an incorrect valuation for one of the Council's schools. The carrying value of this asset was therefore understated as at 31 March 2019 by £7,707k. The Council has restated the valuation of the school in the prior period.
- We noted that there has been a significant increase between last year's housing property valuation and this years from £751m to £838m. The Council was unable to explain the reasons for the increase, predominantly due to the Council having a change in valuer for his financial year. The Council therefore commissioned its new valuers to value the Council Dwellings as at 31 March 2019 and also at 31 March 2018. The revaluations performed by the Council's current valuers were significantly different to those that had been done in the past, and therefore a prior period adjustment has been made to reflect these differences.
- The valuation report for Other Land and Buildings and Housing Properties did not reflect additions and disposals made during the year. The Council subsequently informed their valuer 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. This has now been undertaken and the revised valuation reflects this spend.
- We note that the Council has an investment in Birmingham Airport. The trading conditions for the Airport are uncertain and we note that the valuation of the Council's investment reduced from £22.3m in 2018/19 to £13m in 2019/20. The Council have made additional disclosure on these matters in its accounts.
- We note that the Council is reviewing the business plan for it's subsidiary, WV Living.

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 have completed our risk based review of the Council's value for money arrangements. We have concluded that the City of Wolverhampton Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. 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 ongoing dialogue with the Director of Finance and her team with respect to the ongoing impact of Covid on the Council's finances.
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.

- receipt of information evidencing the value of the loans to WV Living
- final consideration of the prior period adjustments made in respect of the valuations
- reviewing all amendments made to the financial statements – because of this a full list of adjusted and unadjusted misstatements has not been include in this report but will be provided once the review is complete
- receipt of granular detail in relation to the Civic Halls budget
- final manager and engagement lead review of all of the above once completed

- review of component auditor's audit files in respect of City of Wolverhampton Housing Company Limited to give us assurance over the figures used for the consolidation of the group accounts
- receipt of rationale and supporting papers for the accounting treatment of i9

- completion of our procedures on the Council's WGA pack.
- reviewing the final 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 '()' relate to the materiality levels we reported to you in the Audit Plan, which were based on the prior year outturn gross operating expenses. The materiality levels have subsequently been revised downwards to reflect the actual gross operating expenses as reported in the draft accounts.

	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 10 to 14 for further detail on this work. The following issues arose from our work. **Material uncertainty applied to valuations** - in their reports, the Council's valuers of Council dwellings and Other Land and Buildings have both 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. In a similar vein, the West Midlands Pension Fund has included a material valuation uncertainty in relation to its property funds which form part of the pension scheme assets. Out of £15.3bn total assets in the pension fund, property assets represent £965.1m. As the Council's share of these assets is approximately £67.6m it is material to the financial statements. As with the fixed asset valuations, the Council has reflected this uncertainty in its accounts at Note 15C 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. This has been included in the updated accounts at Note 2K . We note that the Narrative Report has also been updated to reflect the changing situation.

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.
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 we have found that they were appropriate, eligible and valid, and can be agreed to supporting evidence. For more in-depth consideration of the Council's judgements and estimates please refer to pages 18 to 23.

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 have challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We have also evaluated the assumptions made by management for any assets not revalued at 31 March 2020, including those in the Housing Revenue Account, 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. **Other Land and Buildings revaluation** *Prior period adjustment* As part of our work in comparing valuation movements year on year it was identified that the Council's valuer had provided an incorrect valuation for one of the Council's schools (Tettenhall Special School), due to a spreadsheet error which led to the valuation calculation being based on a floor area of 350 sqm rather than the correct area of 3,455 sqm. This means that as at 31 March 2019 the buildings element for the school was reported at a value of £868k (using the floor area of 350 sqm) rather than £8,575k (using the correct floor area of £3,455 sqm). The carrying value of this asset was therefore understated as at 31 March 2019 by £7,707k and resulted in a downward revaluation movement being recognized and the asset being carried at a value below its true value. The Council has restated the valuation of the school in the prior period therefore increasing the value of other land and buildings, and reversing any prior year downward revaluation movements. In accordance with IAS 8 the Council is required to include in its disclosure: a) Nature of the prior period error b) For each prior period presented, the amount of the correction for each financial statement line item affected c) The amount of the correction at the beginning of the earliest prior period presented; and

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings (continued)	**Other Land and Buildings revaluation (continued)** *Prior period adjustment (continued)* d) If retrospective restatement is impracticable for a particular period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected, (not applicable in this case as restatement is not impracticable). As at the time of writing this report we are in the process of reviewing the amendments in the financial statements to satisfy ourselves that they have been made appropriately and accurately and that all relevant disclosures are made. A specific written representation will be obtained from those charged with governance regarding the restatement made to correct a material misstatement in prior period financial statements that affect the comparative information. *Disposals* Testing identified £1.9m (net book value) of assets disposed of in the year, which had been processed as part of the Council's quality assurance processes to correct errors from prior years rather than actual disposals: • £989k represented two assets (£678k and £311k) incorrectly in the Fixed Asset Register (as they are leased rather than purchased and should not have been capitalised), • £926k was a duplicated asset As this error relates to a prior year but is not material, no prior period amendment has been made. We consider this to be appropriate and in line with accounting standards that the correction has been made in year. *Valuation errors in the current year - Parkfields Centre* Significant capital expenditure of £1.3m was incurred on this asset since the previous revaluation date, however the revised valuation provided did not show any increase. Following further inquiries with the Council and Valuer it was identified that the capital spend related to the construction of a new sports barn. The valuer revisited the valuation in light of this and increase the valuation by £648k. *Additions and Disposals* The valuation report for Other Land and Buildings does not reflect additions and disposals made during the year. 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 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). The Council subsequently informed their valuer 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. This has now been undertaken and the revised valuation reflects this spend.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings (continued)	**Council Dwellings revaluation**

Additions and Disposals

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, our expectation is that the value of Council Dwellings recognised on the Balance Sheet is consistent with the valuation as reported by the Council's external valuer and should include the full housing stock as at the balance sheet date, i.e. including any additions purchased in 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. The revised Council Dwellings valuation takes these additions and disposals into account.

Prior period adjustment

We noted that there has been a significant increase between last year's valuation and this from £751m to £838m. While the increase of £87m includes additions and disposals: the revaluation increase alone is £56m which is still significant at 7.5%. We 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. The Council was unable to explain the reasons for the increase, predominantly due to the Council having a change in valuer for his financial year. The Council therefore commissioned its new valuers to value the Council Dwellings as at 31 March 2019 and also at 31 March 2018 to assist with its explanations.

(The prior two years were required to be considered on the grounds that the closing balances of 31 March 2018 are the opening balances of 31 March 2019 and therefore effect the comparative accounts on which we are opining in the current year.)

The revaluations performed by the Council's current valuers were significantly different to those that had been done in the past, and therefore a prior period adjustment has been made to reflect these differences, as follows:

Year	Revised value £'000	Previous value £'000	Variance £'000	No. properties	Average per house £
2019-2020	828,712	828,712	0	21,926	37,796
2018-2019	821,339	751,485	69,854	21,996	37,340
2017-2018	822,885	737,620	85,265	22,214	37,044

As can be seen above there is a variance of £85,265k as at 31 March 2018 and £69,854k as at 31 March 2019. Given the significant of these differences the accounts have been amended.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings (continued)	**Council Dwellings revaluation (continued)** *Additions and Disposals (continued)* The impact of these adjustments is to increase the carrying value of Council Dwellings on the balance sheet in these preceding years, with corresponding increases in unusable reserves (Capital Adjustment Account). The Council are also proposing to restate Other operating expenditure in 2018-19 (Increase of £1.6m from £67.4m to £69m) to reflect the impact on the loss on disposal of Council Dwellings due to the increase in value. The same disclosure criteria apply here as noted on pages 10 and 11 in respect of Other Land and Buildings. As at the time of writing this report we are in the process of reviewing the amendments in the financial statements to satisfy ourselves that they have been made appropriately and accurately and that all relevant disclosures are made. A recommendation has been made in this regard at Appendix A asking that the Council enhance its quality assurance processes in this area as part of its preparation for future financial statements, such that it is able to justify, with details from its valuer where relevant, any significant movements in value year on year. A specific written representation will be obtained from those charged with governance regarding the restatement made to correct a material misstatement in prior period financial statements that affect the comparative information. *Current year valuation errors - Input error* The Council have been advised by their valuer that there was an input error within the spreadsheet used to calculate the valuation of the Council dwelling stock. The effect of this is to increase their valuation by £9,965k. Consequently the adjusted valuation as at 31 March 2020 is £828,712k. *Current year valuation errors - Garages* The valuation of garages has seen a substantial increase when compared to the prior year valuation, due to the Council valuing them this year on the assumption that they could be let, whereas previously they were valued as void assets. This was on the assumption that these garages were not in a lettable condition however following further knowledge of the sites the valuation approach was changed. If all were void on a site previously a nominal sum was applied. For 19/20 there are 1,159 void garages and they are valued at £3,366 each giving a total valuation of £3,901k. This indicates that there is a potential understatement in the prior year of a similar quantum. We are satisfied this is not material and that no adjustment is required. **Investment Property revaluation** *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. This has not been adjusted on the grounds of materiality.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings (continued)	**Investment Property revaluation (continued)** *Opening balances* Testing of Investment Property found two assets where the downward valuation movements were larger than expected. Further investigation found that this was because the land element was duplicated in the opening balance brought forward at 1 April 2019, and therefore a downward revaluation was processed during the 2019/20 financial year to correct the error. The total variance is £1,761k and means the investment property opening balance (ie that as at 31 March 2019) is overstated by £1,761k. It also means that the revaluation decreases put through in year are equally overstated by the same amount. As this error relates to a prior year but is not material, no prior period amendment has been made. We consider this to be appropriate and in line with accounting standards that the correction has been made in year. **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. This has not been adjusted for on the grounds of materiality. **Conclusion** We have completed detailed testing agreeing the key inputs for a sample of valuations to supporting evidence, and considered the movements year-on-year. This has involved lengthy discussions with both the Council and its valuers, and has led to a number of amendments being identified. Following the adjustments made to the financial statements we are satisfied that the accounts are free from material misstatement.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
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 • 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 have investigated the breakdown of this amount to determine that items included are appropriate through dialogue with our counterparts in the pension fund who have liaised with the actuary **McCloud judgement** MHCLG is consulting on a remedy for the McCloud judgment that we reported upon last year. The Council's actuary has made assumptions in respect of the liability to reflect the proposed remedy. At whole fund level, the Council's actuaries expect the McCloud remedy to have a negligible cost impact and on these grounds we are satisfied that no amendments or disclosures are required. **Adjustment** The Council brought to our attention the need to adjust the accounts by £10.9m to ensure that the draft accounts agreed to the actuarial report. This involved making an amendment of £5.5m to correct a retrospective error from 2017/18 whereby an upfront payment made at the time was not recognised. As this figure is not material we are satisfied it is not a prior period error and that it is appropriate for it to be corrected in year. Our audit work has not identified any other issues in respect of the valuation of the Council's pension fund net liability

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
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.	There are no findings as a result of our review of this work that impacts on the group audit.
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.	We note that the Council is reviewing the business plan for it's subsidiary, WV Living. As at the time of writing we have not yet reviewed the work of the component auditor in relation to the inventory balance, which is the figure that is material to the group accounts 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: £838.4m Final: £828.7m	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. We have no matters to bring to your attention except for those already reported to you on earlier pages of this report. A comprehensive amount of work has been undertaken as part of our challenge involving a significant amount of time and effort both on our part as well as on the part of the Council's estates team, finance team and valuer. We recommend that the Council increase the amount of its own quality assurance processes for future years to understanding different methodologies and any significant variances, such that any errors are identified and resolved prior to the audit process.	 **Yellow/Amber**

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: £444.3m Final: £429.4m	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. As with Council Dwellings we have no matters to bring to your attention except for those already reported to you on earlier pages of this report. A comprehensive amount of work has been undertaken as part of our challenge involving a significant amount of time and effort both on our part as well as on the part of the Council's estates team, finance team and valuer. We recommend that the Council increase the amount of its own quality assurance processes for future years to understanding different methodologies and any significant variances, such that any errors are identified and resolved prior to the audit process.	**Yellow/Amber**

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: £33.9m	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. In addition to the issues reported to you in the earlier pages of this report we noted that the Council's valuer valued all Investment Property at a valuation date of 1st January 2020. We have applied indices to the net book value of Investment Property assets using relevant indices provided by to assess the potential movement between the valuation date and the balance sheet date. This indicates that there has been a downward movement of £1,182k, which is not material and therefore we are satisfied that there is no material difference between the fair value and the carrying value as at the balance sheet date.	 **Yellow/Amber**

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.	Green
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 is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

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.

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	The Council have an investment in Birmingham Airport Holdings (BAHL) 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. Management have determined the fair value through use of an expert. We have appointed our own internal experts to review the valuation and are satisfied that the methodology applied is appropriate. The fair values of loan held by the Council have been assessed by calculating the net present value of cash flows that are expected to take place over the remaining life of the loan. The assessment of loans uses Level 2 inputs, ie inputs other than quoted prices that are observable for the financial instrument. We consider this to be an appropriate designated hierarchy. We have: • Considered the reasonableness of increase/decrease in estimate • Reviewed the adequacy of disclosure of estimate in the financial statements	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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.

PFI scheme disclosures

The Council has 4 PFI schemes covering a leisure centre, schools and a waste incinerator which are disclosed in the financial statements. The operators financial close and accounting models for PFI schemes are highly complex and produce accounting estimates for disclosures within the accounts. The unitary charge levied by the PFI supplier contains various elements including cost of services, additions of new equipment, energy and contract inflation which needs to be apportioned by use in the financial model. The application of the model in apportioning these costs is reported in the Council's accounts. The accounting model requires judgements to be made in a number of areas by the Council. We have assessed the inputs from the Operator's models to produce an audit estimate for each disclosure within the financial statements. We then compare this with the Council's figures for its accounting estimate. Where the difference between the Council's and the audit accounting estimate falls within our trivial range (£0 to £620k) we are not required to report this. Where the Council's accounting estimate falls outside of this range this is reported below.

Commentary on disclosures	Recommendations
Note 10D – PFI liability Liability classifications – • Highfield and Penn Fields schools – the Council's liability is £1.4m lower than the audit estimate. Future unitary payments: capital repayment element are also lower to reflect this difference in liability. The future unitary payment: interest is £3.4m greater than the audit estimate, with overall total future unitary payments being £2m greater than the audit estimate. The Council's disclosure of future capital expenditure/capital redemption at Note 10F does not include lifecycle capital repayments totalling £4.7m. This is an error and has been amended in the revised financial statements • Waste disposal facility – no issues to report. • St Matthias and Heath Park – the Council's liability is £1.7m lower than the audit estimate. Future unitary payments: interest are £1.9m greater than the audit estimate. • Bentley Bridge – the Council's liability is £1.5m higher than the audit estimate. Compensating variances relating to the £1,5m difference in future unitary payments are that future interest payments are greater in the Council's model by £5.2m, and future service charge payments are lower in the Council's model by £3.7m. **Comprehensive income and expenditure account** Entries within the statement of comprehensive income & expenditure account in relation to service charges, interest and the impact of RPI fall within our range of estimates, therefore no issues identified. **Disclosures** The Code requires a number of disclosures in relation to the future commitments of the PFI schemes. **Future payments for services** For Bentley Bridge the total future service costs disclosed are different from the audit estimate in the range of £0.700m to £0.854m lower on the individual periods disclosed within the note. In total for Bentley Bridge the disclosure is £2.503m lower than the audit estimate. **Fair value disclosures** The carrying value of the PFI liability is disclosed as being equal to fair value. PFI liabilities are contractual and therefore constitute a financial instrument and while the measurement requirements do not apply (and so there is no impact on the carrying amount in the balance sheet) disclosure requirements do apply and we would expect there to be a difference between carrying value and fair value.	The differences identified against our range of estimates for the PFI scheme have been discussed with the Council. Differences in each line of the disclosures have been detailed within the Commentary box. The total future payments disclosed for all PFI schemes are in line with the audit estimates. The differences are due to the way in which the indexation is allocated within the accounting models. The Council has determined not to amend the financial statements in this regard. We have accepted the Council's estimate, as the degree of variation is not material, given the nature of the schemes and the basis of the estimate.

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 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 of 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 is appended to this report. As noted on pages 16 and 18 we have requested a specific representation in relation to the prior period adjustments as follows: *We have considered the prior period adjustments included in your Audit Findings Report. The Council financial statements have been amended for these prior period errors. The prior period adjustments disclosed in the financial statement are accurate and complete. There are no other prior period errors to bring to your attention.*
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 to these a small number of amendments were made to improve clarity for the reader.
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.

Other matters discussed with management

We set out below details of other matters which we discussed with management.

Issue	Auditor commentary
Business rate appeals	The Business Rates provision for 2019/20 is £6.6m. As in previous years, the Council has considered different options to calculate the provision for appeals. The methodology used takes the 2010 list provision (calculated based on historic trends as in previous years), adds provision for the loss and backdating of ATM appeals and then provides for high risk appeals on the 2017 list based on the historic success rates of appeals on the type of property using VOA statistics for each year from 2017-2019. Where the appeals have resulted in a reduction of 25% or more they are deemed to be high risk. The successful appeals linked to the 2017 list are then deducted from this calculation. The Council also receive information from Analyse Local and compare this to their workings, after which they decide whether to rely on their workings or Analyse Local's workings. The variance between their own workings and Analyse Local is below £1m, which is the Council's threshold for using external workings. We consider that the Council's approach is not unreasonable. We note that if the provision was based on the successful appeals rate for the 2010 listing (using the national business multiplier rate of 4.7%) that it would be in the region of £16.6m. This was challenged with the Council but it considers the national multiplier to be too high for Wolverhampton. Due to the difference between the actual and potential provision we draw this matter to your attention.

Other matters for communication (continued)

Issue	Auditor commentary
Audit evidence and explanations/significant difficulties	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: **Revisiting planning** We have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. **Management's assumptions and estimates** There is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on the value of property, plant and equipment as well as on the property fund assets in the local government pension scheme to which the Council contributes. We have also needed to resolve prior year issues with the valuation of assets and have needed to consider the valuation of both Birmingham Airport and WV Living. **Financial resilience assessment** We have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. **Remote working** The most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working. In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming. We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC. To reflect the significance of the additional work required we will be proposing an uplift to our fees for 2019/20 of 15%. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Other responsibilities under the Code

Issue	Commentary
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

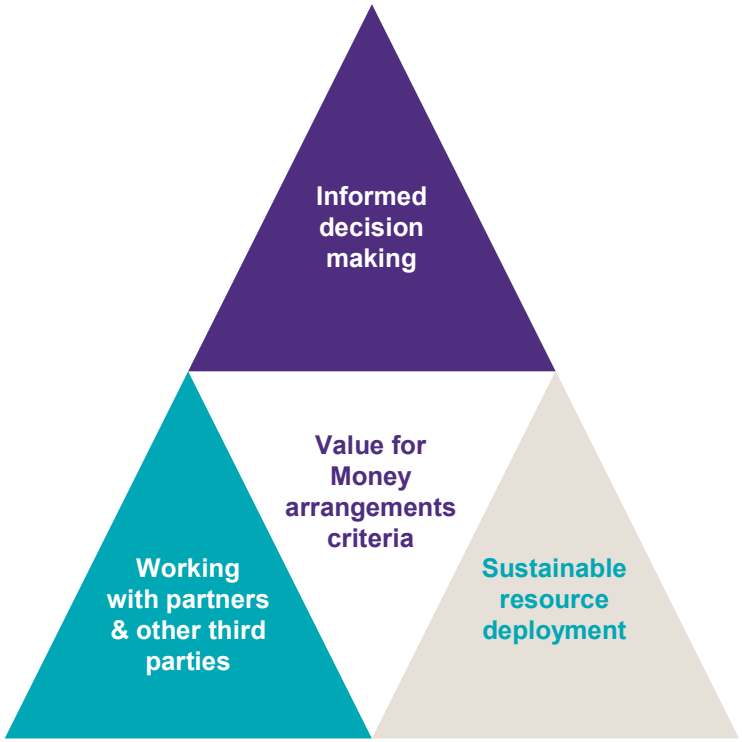
Background to our VFM approach

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 risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Civic Halls Refurbishment
- Financial resilience
- Strategic Asset Management.

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Overall conclusion

Based on the work performed to date to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources, but we note that at the time of writing there is some outstanding information we are yet to receive in relation to our consideration of Civic Halls.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents

Civic Halls refurbishment

Significant Risk – what we said in our Audit Plan

- We noted in our 2018/19 VFM conclusion that this has been a difficult and complex project for the Council. We reported that while it has sought suitable advice at all stages of the project, it has also been unfortunate in that some of the advice it was given by its advisors and contractors appears to have been inadequate.
- We also noted that the timeline and decision making had been driven by the Council's desire to maintain the Civic Halls as a cultural centre for Wolverhampton and to secure the wider economic benefit for the City. We saw that it had enabled the Council to secure significant grant funding for the project and has kept the venue open for the use of the public. It also avoided any additional costs from cancelling planned events.
- We considered, notwithstanding the above comments, that there were a number of areas in relation to costing, viability and project management, where the Council's management arrangements have not proven to be adequate, which contributed to significant delay and increased cost to the Council.
- On this basis we concluded that the management arrangement for the Civic Halls were not adequate and that therefore a qualified "except for" value for money conclusion was given. Given the conclusion reached in the prior year, it is therefore considered appropriate to follow this risk up for the 2019/20 to assess the Council's progress.

Findings

We have reviewed progress being made in relation to this Civic Halls refurbishment, both from a project management and budgetary point of view, and also assess how the lessons learned are being applied to other capital projects.

To aid this latter point we have discussed internal audit's involvement in the various project and programme boards and are satisfied from our discussions and the supporting documentation supplied that appropriate governance arrangements are in place and that internal audit are supporting from an advisory capacity.

Application of lessons learned

The Project Assurance Group (PAG) holds meetings monthly to consider all projects/programmes in train, particularly those flagged as red on the Council's project management system, Verto, as part of which the project owner will be called in to provide an update on actions being taken. The group comprises representation from the finance, legal, project and programmes, relevant directorates, and ICT to ensure that a broad skills and analysis are used in their remit to review initial project concepts to next steps and authorisation of progression of projects though the relevant gateways. Internal audit had previously reported a lack of co-ordinated approach to projects but the existence of this group considers interdependencies between teams as well a projects in order to ensure transparency.

It is a requirement for all project managers, whether internal or external, to use Verto, which means that the Council has complete oversight of via the Power BI dashboard. This shows clearly what the risks are and makes it easy to identify where projects may not be aligned to the plan. It also allows for detailed finance information to be easily obtained.

In addition to PAG there is an operational group, the focus of which is on the delivery of the Civic Halls project. It meets on a 2-weekly basis and looks over the detail of the day-to-day matter of operations, considering past actions taken, future actions required, programme overview, costs, and risks.

Value for Money

Civic Halls refurbishment

Findings (continued)

There is an escalation process for issues arising from the operational group to be considered by the Civic Halls Restoration Programme Board.

Budget

The Council has been in liaison with contractors to determine a price for the contract within the approved budget envelope. The final cost agreed was £19m and features as part of the construction phase line as part of the overall budget.

Conclusion

On the basis above we have concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place.

However we do note that there continue to be risks associated with the delivery of this project:

- The Council needs to ensure that with any value engineering carried out, the project isn't unrealistically shoe-horned into a budget, as there is a risk that the resulting project is sub-optimal and does not meet the original objectives
- The Council needs to continue monitoring and reporting delivery of the project at all levels on a frequent basis to ensure that when problems arise it can be agile in its response.

Value for Money

Financial Resilience

Significant Risk – what we said in our Audit Plan

- The Authority has historically managed its finances well, achieving financial targets. The Budget and Medium Term Financial Strategy considered by approved by Full Council in February 2019 identified that the budget for 2019/20 was in balance without the use of general reserves. general reserves and the section 151 Officer has indicated that the 2019/20 budget estimates are robust.
- However, in common with other authorities, pressures on demand led services, particularly in Children's Social Care, continue to put impact finances and as at the time of writing, per the latest Revenue Budget Monitoring Report, the Authority is forecasting an overspend against the general fund of £1.6m for 2019/20.
- However, the Medium Term Financial Strategy notes that the Council is faced with finding further budget reduction and income generation proposals totalling £19.5 million. The Council therefore needs to maintain focus on delivering its budget in 2019/20 and focussing on savings for 2020/21 and thereafter if it is to remain financially resilient and is able to address the projected future budget deficits.
- We will review the Council's Medium Term Financial Strategy and financial monitoring reports and assess the assumptions used and savings being achieved.

Findings

General Fund 2019/20 outturn

In 2019/20 the Council reported a net General Fund underspend position of £1,993k against an approved budget of £234,934k. The majority of the costs associated with Covid-19 and loss of income have impacted on the Council post 31 March 2020 and will continue to do so as long as the pandemic persists.

The Government's lockdown, announced on 23 March 2020, has meant that many business have been forced to close, significantly impacting on the local economy, which in turn impacts on the Council's commercial income. Furthermore, the Council has had to put considerable resources into ensuring that rough sleepers are sae during this period and that the most vulnerable are cared for.

On 2 July 2020 the government announced further funding and financial support for local authorities. These were:

- £500m of non-ringfenced grant funding for local authorities across England. The funding is similar to the first two tranches of government support and is likely to focus on additional financial burdens that have arisen from the pandemic
- A new scheme to help reimburse local authorities for lost income during the pandemic and boost cashflow for local authorities. This is predicated on Councils covering the first 5% of income losses from sales, fees and charges and the government reimbursing councils for 75 % thereafter.
- Any preceptor deficits on a council's Collection Fund can be paid over three years rather than all in one year.

Value for Money

Financial Resilience

Findings (continued)

Table 1 – 2020-2020 Revenue Budget Outturn Summary

Service	Net Controllable Budget 2019-2020	Net Controllable Outturn 2019-2020	Total Variation Over/(Under)	
	£000	£000	£000	%
Adult Services	63,801	63,473	(328)	(0.51%)
Children's Services and Education	57,593	57,198	(395)	(0.69%)
Public Health and Wellbeing	906	1,024	118	13.02%
Regeneration	6,760	6,729	(31)	(0.46%)
City Assets and Housing	8,990	9,429	439	4.88%
City Environment	22,534	22,804	270	1.20%
Finance	13,496	12,720	(776)	(5.75%)
Governance	6,399	5,894	(505)	(7.89%)
Strategy	7,115	6,525	(590)	(8.29%)
Chief Executive	1,238	1,160	(78)	(6.30%)
Deputy Chief Executive	4,958	4,878	(80)	(1.61%)
Corporate Accounts	41,145	41,108	(37)	(0.09%)
Net Budget Requirement	**234,934**	**232,941**	**(1,993)**	**(0.85%)**
Council Tax (including Adult Social Care Precept)	(103,486)	(103,486)	-	-
Enterprise Zone Business Rates	(2,800)	(2,184)	616	22.00%
Top Up Grant	(26,152)	(26,152)	-	-
Business Rates (net of WMCA growth payment and Collection Fund deficit)	(71,931)	(72,416)	(485)	(0.67%)
New Homes Bonus	(2,080)	(2,080)	-	-
Section 31 Grant - Business Rates Support	(10,611)	(10,734)	(123)	(1.16%)
Improved Better Care Fund	(12,947)	(12,951)	(4)	(0.03%)
Winter Pressures and Social Care Grants - Adult Social Care	(3,727)	(3,728)	(1)	(0.03%)
Levy Account Surplus (2018-2019)	(1,200)	(1,203)	(3)	(0.25%)
Total Resources	**(234,934)**	**(234,934)**	**-**	**0.00%**
Use of General Balances	**-**	**-**	-	-
Net Budget (Surplus)	**-**	**(1,993)**	**(1,993)**	**(0.85%)**

Whilst the positive General Fund outturn position during 2019-2020, and the resulting adjustments to reserves, will help to support the Council's short term financial position, it does not address the challenging financial position that the Council finds itself in over the medium term; namely identifying further projected budget reductions which were estimated at £15.5 million in 2021-2022, rising to around £20 million over the medium term to 2023-2024 when reported to Full Council in March 2020, which does not take into account the impact of Covid.

Consideration of 20/21 budget

The Council is undertaking scenario planning and closely monitoring the financial impact of Covid-19. Officers recognise that this is a complex, evolving and iterative process.

The Council is currently forecasting the impact of Covid -19 to be in the region of £3.0m. This comprises a mix of expenditure pressures as well as lost income generation. £19.4m has been received in additional grant funding, but this still leaves a gap to be bridged. These plans are based upon a set of assumptions which are likely to change including how long the recovery is likely to take, how much of the lost income will be recovered and how much of the pre Covid-19 income will return in time. There is also the potential for further surges in the virus and potential lockdowns.

The Council may need to look at measures to reduce spending on non-essential functions where possible in order to reduce this impact over time.

In recognition of the pressures and initial investment that will be required to support the recovery work, Cabinet on 8 July approved a specific Recovery Reserve of £3 million.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents

Financial Resilience

Findings (continued)

Savings

The way the Council applies its savings requirements is to take the required savings out of each directorate in the budget and therefore how it monitors its savings is simply to monitor how it is performing against budget. In March 2019 the Council set a balanced budget without the use of general reserves. At this time, the forecast deficit for 2020-2021 was £27.3 million. Cabinet has been updated throughout the year as work progressed to address the deficit. In October the report to Cabinet identified opportunities in line with the Five Year Financial Strategy and analysed the potential resources available to the Council following the Spending Round 2019 announcement. Cabinet approval was sought to acknowledge the updated assumptions on Corporate Resources, one-off funding opportunities and emerging pressures within Adult Services and Waste and Recycling Services. As a result, the remaining budget deficit to be identified for 2020-2021 reduced to £3.8 million. Since October 2019, the 2020/2021 budget setting process has continued with the identification of further budget reduction proposals, emerging budget pressures and funding announcements. In summary, a balanced budget for 2020-2021 is proposed without the use of general reserves.

This demonstrates that the budget for 2020-21 is in balance without the use of general reserves and that in the opinion of the section 151 Officer the 2019-20 budget estimates are robust.

However, a further £27.3 million needs to be identified for 2020-21 and £40 to £50 million over the medium term in order to address the projected budget deficit.

The future

The Council recognises that there are still many uncertainties with which to grapple:

- the ongoing impact of Covid-19 costs: some costs are known but some, for instance business rate and council tax collection rates are based on assumptions as they are dependent on how much support the government continue to provide to those responsible for paying such rates and taxes and whether they find themselves able to pay.
- the ongoing impact of Covid-19 on income: the government's scheme to provide subsidy for lost income is (all relevant losses, over and above the first 5% of planned income from sales, fees and charges, will be compensated for at a rate of 75p in every pound) is welcome, but it is not clear how long the funding will last, nor what the value of the funding might be so the Council has had to make assumptions accordingly
- the results of the comprehensive spending review, which are due out later this year along with the settlement figures thereafter

The Council is aware it will need to monitor decisions from the Government with regard to funding and respond accordingly.

Conclusion

On that basis we have concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place to ensure it plans finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.

Value for Money

Strategic Asset Management

Significant Risk – what we said in our Audit Plan

- We reported last year that while we thought arrangements were adequate, the speed of implementation of the Council's Strategic Asset Management Plan was slow. As this remains high on the Council's agenda we will revisit progress against this for 2019/20 through discussion with officers and review of relevant documents.
- We will review the work carried out since prior year to assess whether the actions have been undertaken and are effective.

Findings

The Strategic Asset Plan was approved at Cabinet in October 2018 and has since been published on the Council's internet site. The plan comprises three documents:

- Asset Management Policy (5 year outlook)
- Asset Management Strategy (3 year outlook)
- Asset Management Action Plan (live document with continuous monitoring).

As part of the Corporate Plan there is a principal called 'Our Assets', which is to be an enabler for public service reform, through better utilisation of the collective public sector assets in the city. This will oversee the rationalisation of the estate, improve effectiveness and efficiency of services through co-location of service delivery and reduce ongoing maintenance costs.

Objectives for this are:

- Property portfolio strategy of the operational estate
- Disposals strategy and reduction in Council-owned buildings
- Increase occupancy and utilisation of buildings
- Delivery of a 'One Public Estate' through co-location of Health and Social Care Hubs, creation of a Public Sector Hub and public sector campus type arrangements (successful OPE funding obtained to deliver feasibilities)
- Co-location of public sector providers to rationalise public sector estate
- Co-location of services to support service provision to communities

Value for Money

Strategic Asset Management

Findings (continued)

In commencing 'Our Assets', the Council has established a Public Sector Asset Management Board delivering a place-based asset transformation approach, enabling collaborative working and ongoing rationalisation and disposal programmes across the public sector estate and borders. Members include University of Wolverhampton, LGA, Cabinet Office, WMCA, NHS, Blue Light services, Voluntary Sector Council, Justice Service and internal Council services.

At the Board's first meeting held on 30 January 2019 (to be held quarterly), all partners provided their commitment to collaborative working and confirmed service and asset transformation opportunities do exist, particularly within the One Public Estate agenda. Partners have shared their top five service priorities and associated asset implications to begin establishing gaps in services and possible locations for Campus type hubs/co-locations.

The Council is involved in Wolverhampton Public Sector Asset Management Board and therefore shares information about Council owned assets with other organisations. The value of the work of the group is the opportunity to share information with colleagues, particularly as the organisations represented have similar property management responsibilities across Wolverhampton, and the group facilitates discussion in developing shared facilities and co-locating where applicable and appropriate, to reduce costs and improve efficiency in the management of the relevant organisations' respective property portfolios

To address the strategic management issues the Council has faced, it now has an Assets Service to: create, adopt and deliver the Strategic Asset Plan; provide professional estates management and valuation services; provide asset challenge and rationalisation; deliver the disposal programme leading to capital receipts; manage the commercial portfolio to maximise rental income and identify new delivery models to ensure the portfolio can perform to its optimum potential; lead development of the compliance strategy and implement operational arrangements for its effective management; and take part in public sector partnership collaborations.

Initial rationalisation has already taken place, on the basis of determining whether to retain or dispose a particular asset based on the spend needed to maintain it and the return it provides (either socially or financially). The key drivers behind the approach to rationalisation take include the following:

- Operating efficiently within the buildings which are needed and disposing of those that aren't;
- Addressing the essential maintenance needs of remaining buildings to prolong their operational lifespan;
- Making certain that actions are taken to ensure buildings are compliant with statutory obligations e.g. Fire, Legionella and Asbestos;
- Protecting existing income streams from assets and acquiring and/or investing in buildings where additional income can be generated;
- Improving the carbon footprint and energy efficiency in buildings and reducing running costs;
- Enabling agility in the way the Council operates by working more flexibly within the estate available, through the promotion of agile working and providing modern fit for purpose workplaces

Value for Money

Strategic Asset Management

Findings (continued)

- Focusing on what customers want and need, using better accessible and inclusive facilities to serve them.

We acknowledge that the aims are laudable and the key drivers are appropriate and will provide benefit to the Council if seen through. However, there is little evidence to date of delivery of any of these plans and therefore we have made recommendations below to ensure that momentum is maintained and progress made.

Conclusion

On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for managing and utilising assets effectively to support the delivery of strategic priorities.

We note however that while the arrangements are in place there is limited delivery to date. Further action is needed to:

- dispose of properties that are not needed
- manage FM costs within budget
- secure better utilisation of buildings by finalising agreements whereby office space is shared with the Council's partners.

Management Comments

We are now in the delivery phase of the Our Assets Programme which has its own governance (Our Assets Board) and has six workstreams:

- Asset Data
- Asset Reviews
- Retained Estates
- Civic Centre
- Surplus Assets
- Asset Disposals

Since the Audit we have also established an Asset Management Board which had its inaugural meeting in February 2020. This meets bi-monthly and is attended by Portfolio Holders and Council officers to discuss the future of assets, particularly around the disposal programme (including community asset transfer).

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 4 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 on board.
Medium	**Valuation process** A number of amendments were made as a result of our audit findings in this area.	We recommend that the Council increase the amount of its own quality assurance processes for future years to understanding different methodologies and any significant variances in the valuations, such that any errors are identified and resolved prior to the audit process. **Management response** The Council undertakes a significant amount of quality assurance work throughout the year, however takes on board the need for enhanced scrutiny, particularly when changing valuers with different methodologies.

Controls

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

Action plan (continued)

Assessment	Issue and risk	Recommendations
Medium	**Additions to Council Dwellings and Other Land and Buildings** The valuation reports for these assets did not originally reflect capital expenditure made during the year. Our expectation is that the value of such assets recognised on the Balance Sheet is consistent with the valuation as reported by the Council's external valuer and should include the full population of assets as at the balance sheet date, i.e. including any additions purchased in year.	We recommend that in future the Council seek to inform its valuers of any such changes in year to determine the impact of any on the valuation of assets as at the balance sheet date. **Management response** Whilst the Council's treatment was in accordance with existing accounting policies already in place, we take onboard the requirement to change going forwards.

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 provided by way of an update once we have completed our review of the amendments made to the financial statements.

Misclassification and disclosure changes

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

Disclosure 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.	Yes
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.	Yes
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.	Yes
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.	Yes
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.	Yes

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.	Yes
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.	Yes
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.	Yes
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.	Yes
PFI	The overall PFI liability £86.6m as per Note 10F can be split between short term of £4.3m long term of £82.3m. The current split in the accounts is £0.2m short term, and £86.4m long term which means short term PFI liabilities are therefore understated by £4.1m, and long term liabilities overstated by the same amount.	Yes
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. 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. 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. Comparatives at Note 10C Leases and Lease-Type Arrangements are not consistent with amounts reported in the 18-19 audited accounts. 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. 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.	Yes

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.	Yes
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.	Yes
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.	Yes
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	Yes
Debtors	The comparators in the accounts do not agree to last year's: they both come to a similar total but the split between categories is very different. This is because the Council changed the way it presented this note between 2018/19 and 2019/20 and the comparatives were updated to follow the same methodology to allow for fair comparison. Narrative needs to be added to the note in the accounts to explain this.	Yes
Senior Officers Remuneration	Remuneration in relation to the Head of Legal has been amended to correct a typo	Yes
Capital Commitments	The outstanding capital commitment in relation to Heath Town Regeneration Project has been amended for £10.2m to £9.6m to agree to supporting working papers. Additionally the note has been expanded to include a further commitment, being the High Rise M&E Infrastructure Refurbishment for £7.3m.	Yes
Inventories	Where material, the Council is required to include as series of disclosures in relation to inventories: a) the total carrying amount of inventories and the carrying amount in classifications appropriate to the authority b) the amount of inventories recognised as an expense during the period c) the amount of any write-down of inventories recognised as an expense in the period in accordance with this section of the Code d) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period, and e) the circumstances or events that led to the reversal of any write-down of inventories in accordance with this section of the Code.	Yes

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
Council Audit – additional uplift as per page 29	25,250	
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)	**£256,135**	**£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**