

Wolverhampton City Council

Annual Audit Letter

2014/15

Government and
Public Sector

October 2015

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

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

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Introduction

The purpose of this letter

This letter summarises the results of our 2014/15 audit work for members of the Council.

We have already reported the detailed findings from our audit work to the Audit Committee in the following reports:

- External Audit Progress Report 2014/15 (July 2015);
- Audit opinion for the 2014/15 financial statements, incorporating opinion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- Report to those charged with Governance (ISA (UK&I) 260); and
- 2013/14 Annual Certification Report (to those charged with governance)

The matters reported here are the most significant for the Authority.

Scope of Work

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As an administering Authority of a pension fund, the Authority is also responsible for preparing and publishing Accounting Statements for the West Midlands Pension Fund.

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2015 and is

conducted in accordance with the Audit Commission’s Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

We met our responsibilities as follows:

Audit Responsibility	Results
<p><i>Perform an audit of the accounts and pension fund accounting statements in accordance with the Auditing Practice Board’s International Standards on Auditing (ISAs (UK&I)).</i></p>	<p>We issued an unqualified audit report on your financial statements (including those of the pension fund).</p> <p>Key points from our audit of the accounts can be found in the section ‘Audit Findings’.</p>
<p><i>Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.</i></p>	<p>We had no concerns to report as part of this work and concluded that your submission was consistent with the financial statements.</p>

Audit Responsibility	Results	Audit Responsibility	Results
<i>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</i>	<p>We issued an unqualified value for money conclusion on your arrangements for securing adequate Use of Resources.</p> <p>Key points from our work in this area can be found in the section ‘Audit Findings’.</p>	<i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i>	We identified no matters that would require any other action to be taken in respect of our responsibilities here.
<i>Consider the completeness of disclosures in the Authority’s annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</i>	We identified no concerns with the content of your Annual Governance Statement, and found it to be compliant with relevant guidance.	<i>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</i>	We have issued our completion certificate and have no relevant matters to report.
<i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i>	We identified no matters that would require us to issue a public interest report.	<i>Issue a report noting whether or not the pension fund financial statements in the pension fund annual report and accounts are consistent with those in the authority’s statement of accounts.</i>	We have issued an unqualified opinion in respect of the pension fund annual report.

The next section of this report sets out how we have met our responsibilities during the course of the audit and what our key findings were.

Audit Findings

Accounts

We audited the Council's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 30 September 2015.

Key points to bring to your attention are as follows:

- Your draft accounts were submitted to us by the 30th June deadline. Our initial enquiries identified that an error had been made in presenting the recharges in the Comprehensive Income and Expenditure Statement. The Council immediately rectified the error and presented a second version of the draft accounts in July.
 - The finance team and the majority of key contacts elsewhere were available throughout the audit and responded promptly to our audit questions and requests for information. We did however experience delays in response to our queries on the valuation of property, plant and equipment as a result of two key members of the valuation team leaving at the end of July.
 - Working papers were in the main ready at the start of the audit. Additional requests were responded to on a timely basis.
 - Significant areas of focus this year included:
 - Ensuring that the valuations of Council land and buildings were based on accurate base data;
 - Reviewing management's assessment to check whether the carrying value as at the 31 March 2015 for Council land and buildings was in line with fair value.
- Reviewing the change in the minimum revenue provision policy to check its legality and subsequent accounting entries;
 - Reviewing the key controls over the implementation of the new ledger system, Agresso;
 - Confirming the adequacy of the Provision for Equal Pay; and
 - Considering the financial standing of the Council over the medium term.
- We identified that the carrying value of the Council's housing stock and school buildings were not materially in line with their fair values. In response, management updated the carrying value based on information provided by their valuation experts to bring the values materially in line with fair value. This exercise resulted in both prior period and current period adjustments.
 - We identified one uncorrected misstatement. The total value of the former North East Wolverhampton Academy site (both land and buildings) should have been valued £8.9m at the 31 March 2015 instead of £10.5m. Given the difference of £1.6m is immaterial, the accounts will not be adjusted this year.
 - We identified no material misstatements in the draft Pension Fund accounts.

Financial standing

There were no material uncertainties related to events and conditions that may cast significant doubt on your ability to continue as a going concern and there are sufficient resources available to meet your commitments for at least a 12-month period after the date of our audit opinion. We concluded the use of the going concern assumption was appropriate. However, we stressed our concerns over your medium term financial standing, noting the extent of the financial challenge that remains, despite significant advances this year. We have provided further comment on this in the 'use of resources' section below.

Accounting systems and systems of internal control

The Council is responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. We review these arrangements for the purposes of our audit of the financial statements and our review of the Annual Governance Statement. On page 6 we set out those matters we consider to be most significant for the Authority and have been raised with those charged with governance.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Use of Resources

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether you had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in your use of the Authority's resources.

In line with Audit Commission requirements, our conclusion was based on your arrangements for:

- securing financial resilience; and
- challenging how the Council secures economy, efficiency and effectiveness.

We issued an unqualified conclusion on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

To reach our conclusion, we carried out a schedule of work that was based on our risk assessment.

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

The scope of this work covered:

- Budgetary control
- Taking a radical approach to service provision
- Information for decision making
- Managing the financial impact of the redundancy programme
- Assumptions in the MTFS
- In-year reporting updates

- Changes to MRP
- Other financial estimates and provisions
- Robustness of savings plans
- Whether an Advisory notice was required.

We concluded that:

- The Council has a well-developed process in place to demonstrate how its financial planning, financial governance and financial control arrangements are aligned to secure financial resilience. This process has been in place across 2014/15 and has enabled key objectives to be met, such as setting a balanced budget and achieving a favourable financial outturn during the year.
- You have received external assurance that your approach is in line with good practice.
- You delivered an underspend in 2014/15 which was reported during the year and have set a balanced budget for 2015/16 and expect to be able to do so for 2016/17 without the use of reserves.
- You have set a challenging but apparently realistic MTFS. You have applied a number of assumptions in setting your MTFS. Overall these assumptions are neither excessively prudent nor excessively optimistic.
- You have set aside a significant level of earmarked reserves and a level of contingency to manage future cost pressures. Whilst these earmarked reserves are larger than in other similar Local Authorities, we believe that you have taken a prudent approach in setting your MTFS and acknowledge that these reserves will be required to effectively deliver some of the transformation you require. However, your general fund balance is now as low as you think it ought to be and to drop any further would put the Council in a very perilous position to deal with future shocks.

- The Audit Commission Value for Money profile, whilst backwards looking, continues to show that whilst the Council remains a relatively high cost Authority the direction of travel is positive and the number of indicators that either cost or performance are at the lower end of the spectrum have reduced.

- You have demonstrated in the past that you have programme management arrangements in place and that you achieve the savings targets which you have set yourself. However, the scale of the savings challenge, particularly during 2015/16 and 2016/17, is more significant than what you have faced to date. Should you identify significant overspends in the current savings plans or should you fail to identify savings plans to address the medium term shortfall, our perspective on the Council's financial resilience could be very different.

There continues to be a risk around delivery of your MTFS – both in terms of managing the delivery of existing savings plans and continuing to develop plans to fill the gaps identified in later years. The main risks you face as an organisation to non-achievement of your medium term financial strategy are consistent with those we reported to you in 2014 and can be summarised as follows:

- **Slippage:** you may not be able to identify or achieve the savings you want either from a service reduction or through efficiencies.
- **Timing:** The timing of savings, service reductions and funding announcements will impact how you deliver against your MTFS.
- **Assumptions:** We have gone some way above to assess the assumptions you have applied in your MTFS. If these assumptions turn out to be false, this would have a significant impact on your ability to deliver a balanced budget over 4 years.

- **Policy:** Current and future changes in government policy have the potential to fundamentally alter the framework within which the MTFS has been developed. Examples may include further integration of Health and Social Care, the impact of the Care Bill and future Comprehensive Spending Reviews.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted by the 2 October deadline. We found no areas of concern to report as part of this work and concluded that it was consistent with the financial statements.

Certification of Claims and Returns

We presented our most recent Annual Certification Report for 2013/14 to those charged with governance in March 2015.

We certified four claims and returns worth a net total of over £130m. Of these two were amended, but none required a qualification letter. These details were also set out in our Annual Certification Report for 2013/14.

Other responsibilities

We are required to determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act. This includes a requirement to consider whether, in the public interest, we should make a report on any matter coming to their notice in the course of the audit. There were no issues to report in this regard.

Other matters reported to those charged with governance

These are the matters we consider to be **most significant** for the Authority and have been raised with those charged with governance. Other, less significant recommendations have been brought to the attention of the Director of Finance.

Summary of significant internal control deficiencies

<i>Deficiency</i>	<i>Recommendation</i>
<p>Frequency of valuations</p> <p>We identified material movements in the fair value of two asset classes (housing stock and school buildings) from their last revaluation date to the balance sheet date. This resulted in a material misstatement of property, plant and equipment that needed to be corrected for.</p>	<p>Based on these findings it is recommended that in between full revaluations the Council review cumulative market changes (including any significant enhancement spend) and if it is determined for a given asset class that its carrying value is no longer materially in line with its fair value, a revaluation should be carried out on that asset class.</p> <p>We also suggest that it would be more effective to value the relevant assets at 31 March, rather than at 1 April and then rolling the value forward.</p>
<p>Fixed Asset Register review</p> <p>Inaccurate fixed asset descriptions leading to incorrect £10m accounting entry.</p>	<p>Review the fixed asset register on an annual basis, including detailed descriptions of assets to ensure correct classification.</p>
<p>Completeness of Related Party declarations</p> <p>14 related parties were not declared by Members. One was over the Council's accounts disclosure threshold of £100k. Also, no close dependants were disclosed which is a requirement of the accounting standard.</p>	<p>Provide a re-fresher briefing to Member's on the requirements for related party declarations.</p>

Final Fees


Final Fees for 2014/15

We reported our original fee proposals in our audit plan to the Audit in March 2014.

We are currently in the process of agreeing the fee over and above the scale element with the PSAA (local risk based audit work) and will report the final position in due course. The table below summarises our fee proposal and the latest estimated fee outturn (excluding VAT):

Audit fee	2014/15 Outturn £	2014/15 Fee proposal £	2013/14 Final outturn £
Audit work performed under the Code of Audit Practice			
- Statement of Accounts	252,570	252,570	251,100
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources			
- Whole of Government Accounts			
Pension Fund	48,618	48,618	48,618
Certification of Claims and Returns	21,940 (Note 1)	21,940	34,261
Sub - Total Audit Code work	323,128	323,128	373,990
Additional local risk based audit work	Not yet approved by the PSAA	51,000	40,011
Sub – Total Audit Fees	388,128	373,128	373,990
Non-audit work	126,125 (Note 2)	20,190	90,875
Total fees (audit and non-audit work)	449,253	393,318	464,865

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



Note 2: In addition to the statutory services provided as your Appointed Auditor, PwC has, during the year, provided non-audit services which fell outside of the Code of Audit Practice. We confirm to you that we have appropriate safeguards in place to maintain our audit independence and reported these to the Audit Committee in September 2015. We have maintained our independence since that date.



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