

City of Wolverhampton Council Progress Report and Indicative audit risks

Year ending 31 March 2022

14 March 2022



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This document provides an overview of the indicative planned scope and timing of the statutory audit of City of Wolverhampton Council (the 'Council') for those charged with governance. It sets out the risks that we anticipate will drive the focus of our audit based on our knowledge of the Council from the prior year and discussions with management. It is important to note that our risk assessment is an iterative process and we will revisit our assessment on an ongoing basis bringing any new risks to your attention if and when they arise.

We will provide our formal Audit Plan for consideration subsequent to our planning visit which is currently underway.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed engagement letter and addendum to the contract. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Risk Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Risk Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.



Financial Statements Audit 2021/22

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We have not yet determined the materiality for the year ended 31 March 2022, but anticipate it being based on the Council's gross expenditure for the year

Informing the audit risk assessment

To inform our planning we include later in this report, on pages 9 to 36, responses from management to a series of questions posed across the themes of fraud, laws and regulations, going concern, related parties and accounting estimates.

Significant risks

Although we have started our planning work we are not at a stage where we can formally confirm the significant risks that we will be auditing. However, the sections below indicate likely areas that we expect our work to focus on.

Presumed significant risks

ISA (UK) 240 includes two presumed risks as follows:

- Revenue recognition may be misstated due to the improper recognition of revenue. This is a rebuttable risk if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We will consider the risk factors set out in ISA240 and the nature of the revenue streams at the Council to determine whether there is a risk of fraud from revenue recognition.
- The risk of management over-ride of controls is present in all entities. The need to achieve a particular financial outturn could potentially place management under undue pressure in terms of how they report performance.

Valuation of land and buildings – The Council is required to revalue its land and buildings on a sufficiently frequent basis to ensure that the carrying value in the financial statements it not materially difference from the current value at the financial statements date. To achieve this, the Council requests valuations from its valuation experts. This valuation represents a significant estimate by management in the financial statements due to the value involved and the sensitivity of this estimates to changes in key assumptions. It is expected that the valuation of land and buildings will continue to be identified as a significant risk.

Valuation of net defined pension liability – The Council's pension fund net liability represents a significant estimate in the financial statements, due to the size of the numbers involved, and the sensitivity of the estimate to changes in key assumptions. It is expected that the valuation of this balance sheet item will continue to be identified as a significant risk.

Other expected areas of focus

- In line with the Public Audit Forum Practice Note 10 in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition. We do not anticipate there being a significant risk in this regard, but will consider as part of our planning processes and again on receipt of the draft financial statements whether there is an increased level of risk associated with these transactions which would require additional audit effort to be made.
- We have previously provided information to the Committee on the new accounting standard on Estimates. This raises the bar in terms of what both we and management are required to do. Therefore while in the past, we have focussed on the valuation of land and buildings on the grounds that it is a large and complex estimate in the accounts, this will continue to occur to an even greater extent in 2021/22. This will also apply to any other material estimates made by management.

Value for Money 2021/22

As part of our planning work, we will consider whether there are any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we need to perform further procedures on. We may need to make recommendations following the completion of our work and will follow up the recommendations made in our 2020/21 Auditor's Annual Report.

Risks of significant weakness

We have not yet undertaken our planning assessment, and therefore cannot confirm the risks we will be considering. However, we anticipate following up on the recommendations made as part of our previous review.

We made two improvement recommendations in relation to financial sustainability:

- Consideration should be given to more formal, explicit monitoring, at a Member level, of the extent to which proposed savings are realised.
- The Medium Term Financial Strategy should be expanded to explicitly consider group entities, particularly those which are considered sufficiently significant to be consolidated into the group accounts; namely City of Wolverhampton Housing Company Limited and Wolverhampton Homes.

We made three improvement recommendations in relation to governance::

- When documenting a strategic risk, the Council should be explicit in linking it to which of the corporate objectives is at risk, as well as clearly setting out details of the controls and assurance already in place, such that gaps can be easily identified.
- The Council has a consultation hub, which invites thoughts and comments from the public when changes are planned. We recommend that the Council consider including a section in its consultation pages setting out details of the questions asked, the responses received, and what was done as a result.
- We recognise the improvements made by the Council in partnership with City of Wolverhampton Housing Company Limited in terms of it having relevant sector expertise on the Board. We recommend that the a skills and knowledge assessment is undertaken to inform the consideration of whether further additional expertise would add value to the Board.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Certification work

Housing Benefit Assurance Process (HBAP): Housing Benefit Certification 2021/

Background

The HBAP Module 1 framework sets out the Department for Work and Pensions' (DWP) requirements for the reporting accountant to provide a report of factual findings on the completion of the housing benefit subsidy assurance process.

City of Wolverhampton Council – 2020/21

We identified a number of issues from our certification work and, as a result of the errors identified, the claim was qualified, and we reported our findings to the DWP in our Reporting Accountant's Report dated 25 November 2021 well in advance of the deadline of 31 January 2022 (which was subsequently extended to 28 February 2022).

Due to the nature of the welfare system this is inherently a complex and multifaceted area, and any errors identified historically in the claim, automatically lead to testing that needs to be undertaken (to see if the errors have been addressed), before taking into account any new issues identified in the current year.

The Council completes the workbooks for us to review and the audit team re-performs work on cases on a sample basis. The quality of evidence within the workbooks was good.

“CAKE” (cumulative audit knowledge and experience) testing

In line with the requirements of HBAP modules we are required to undertake CAKE testing based upon the preceding Qualification Letter. There were no such errors to roll forward and therefore no CAKE testing was required.

Issues identified this year

Similar to prior years, a Reporting Accountant's report was produced, with all content agreed with the Authority prior to submission. We are happy to provide a copy of this letter separately should members wish, but in summary, findings were as follows:

Testing results

Initial testing identified three cases (from a sample of 60) whereby incorrect inputs had been applied. In all three instances, the errors led to underpayment. Given the nature of the populations, an additional sample of 40 cases were tested in relation to each error type and no further errors were identified. Due to the errors in the discovery sample being underpayments, no amendment to the claim was required.

Fee

The fee for certification of the housing benefit subsidy claim is based on an anticipated level of work and is adjusted accordingly through a variation based on the actual output. A fee was proposed and agreed of £16,000 (2019/20: £16,000). This was disclosed to you separately in our 2020/21 Audit Plan, as well as our 2020/21 Audit Findings Report along with the reasons as to why we consider ourselves to be independent in relation to this non-audit service.

Other certification work undertaken

Teachers Pension Return

Background

The Council is required to submit an EOYC (end of year certificate) to Teachers Pensions which sets out Teachers' Pensions contributions split between employer and teacher across the various tiers.

The EOYC is an annual return completed by employers showing the level of teachers' pension contributions that should have been deducted and paid to Teachers' Pensions within the financial year i.e. the totals for the payroll and employer adjustments such as deductions at the incorrect tier which they identify during the financial year. The EOYC should cover all teachers who should be contributing to the TPS and for whom the employer is responsible.

The Council appointed Grant Thornton UK LLP as its Reporting Accountant to undertake agreed upon procedures, as set out by Teachers Pensions. On conclusion of our work we are required to submit the Council's final EOYC along with our signed Reporting accountant's report directly to Teachers Pensions by the deadline of 30 November.

2020/21 findings

From the 10 tests we are required to undertake, we identified no exceptions.

Our Reporting Accountant's report was submitted on 8 November.

Fee

A fee was agreed for this work of £4,500 (2019/20 £4,500). This was disclosed to you separately in our 2020/21 Audit Plan, as well as our 2020/21 Audit Findings Report along with the reasons as to why we consider ourselves to be independent in relation to this non-audit service.

Pooling of Housing Capital Receipts

Background

The Ministry of Housing, Communities and Local Government (MHCLG) administers the pooling of housing capital receipts scheme.

Use of receipts arising from the disposal of housing assets (i.e. generally assets held under Part II of the Housing Act 1985 and for which account is made in the Housing Revenue Account (HRA)) is governed by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) ("the regulations"). The regulations require that, in short:

- a. receipts arising from Right to Buy (and similar) sales may be retained to cover the cost of transacting the sales and to cover some of the debt on the properties sold, but a proportion of the remainder must be surrendered to central Government;
- b. receipts arising from all other disposals may be retained in full provided they are spent on affordable housing, regeneration or the paying down of housing debt (each of which is defined in the regulations).

The 2020/21 pooling return is an annual return generated by local authorities showing the breakdown of the various elements of the housing capital receipts.

The Council appointed Grant Thornton UK LLP as its Reporting Accountant to undertake agreed upon procedures, as set out by MHCLG. On conclusion of our work we are required to submit the Council's final pooling return, supported by four debt supportable workbooks (one for each quarter) along with our signed Reporting accountant's report directly to MHCLG.

2020/21 findings

From the 23 tests undertaken no exceptions were identified.

Our Reporting Accountant's report was submitted on 8 February in accordance with the deadline.

Fee

A fee was agreed for this work of £3,000 (2019/20:: £2,750). We disclosed in our 2020/21 Audit Plan, as well as our 2020/21 Audit Findings Report, why we consider ourselves to be independent in relation to this non-audit service.

Appendix 1: Informing the audit risk assessment

Purpose

The purpose of this section of our Progress Report and Indicative Audit Plan is to contribute towards the effective two-way communication between City of Wolverhampton Council's external auditors and City of Wolverhampton Council's Audit and Risk Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Risk Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Risk Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Risk Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Risk Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Risk Committee and supports the Audit and Risk Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

This report includes a series of questions on each of these areas and the response we have received from City of Wolverhampton Council's management. The Audit and Risk Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>Asset valuations and the net pension liability estimate, have the potential to have a significant impact on the financial statements due to their materiality and the fact that they are based on various assumptions, e.g. investment returns, retirement ages, mortality rates.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by City of Wolverhampton Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Accounting policies are kept under review throughout the year by Strategic Finance, but formally reviewed each year by the Chief Accountant in preparation of the financial statements.</p> <p>No changes to accounting policies, or new accounting policies are anticipated.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>Yes, the Council has equity instruments, investments, borrowings, finance leases, PFI arrangements, cash, receivables and payables. These are disclosed in the notes to the accounts.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>In 2021-2022, the Council has received a number of grants in relation to Covid-19, including the distribution of business grants, grants to social care providers and test and trace isolation payments.</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No, the outbreak of Covid-19 impacted on the global financial markets and market activity. A material valuation uncertainty was disclosed in the property valuer's report in 2019-2020 but was removed for 2020-2021.
6. Are you aware of any guarantee contracts? If so, please provide further details	<p>The Council has provided guarantees to: -</p> <ul style="list-style-type: none"> • a number of organisations at the point they were admitted to West Midlands Pension Fund, to fund any potential pension liability; • Walsall Metropolitan Borough Council for the University of Wolverhampton, in relation to grant funding through the Black Country Local Enterprise Partnerships (LEP); • Barclays for the City of Wolverhampton College.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	None as of today (22.02.2022). This will be reviewed through closedown.
8. Other than in house solicitors, can you provide details of those solicitors utilised by City of Wolverhampton Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	In terms of individual solicitors the Council has utilised locums from its in-house agency and an external agency; they have not worked on open litigation or contingencies from prior years. The Council has also, where appropriate, used external law firms to assist on some significant projects including contract advice and is happy to provide full details to auditors on this.

General Enquiries of Management

Question	Management response
<p>9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>None of the Council's service providers have reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>There are a number of consultants used, mainly for regeneration projects, to provide financial, legal and professional advice. We have also used barristers for external expert advice. The Council will provide specific details to Grant Thornton.</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>Yes, expected credit loss provisions are reviewed throughout the year and include trade receivables, lease receivables, short term investments and financial guarantees, further details are provided in Appendix A.</p>

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Risk Committee and management. Management, with the oversight of the Audit and Risk Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Risk Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As City of Wolverhampton Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Risk Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Risk Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Risk Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from City of Wolverhampton Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has City of Wolverhampton Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The collective processes for closedown, budget monitoring and outturn take into consideration the risk of material misstatement due to error or fraud. Senior finance officers meet regularly to consider any issues arising from budget monitoring and the closedown process. Should any fraud be reported as part of this or any other process, corrective action would be taken. A strategic and finance leadership risk register is also regularly updated and reviewed.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>There are no particularly high risk areas as such – but those around payments, journals and bank account changes would in all likelihood be most at risk.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within City of Wolverhampton Council as a whole or within specific departments since 1 April 2021?</p> <p>If so, please provide details.</p>	<p>Yes, there have been a small number of cases – some ongoing (although nothing material) – and where appropriate, a report on instances of fraud will go to the Audit and Risk Committee meetings.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Council's governance arrangements ensure risks, including fraud, are prioritised and dealt with at appropriate levels of management. Any potential fraudulent activity is reported to the Chief Operating Officer and 151 Officer, and where appropriate to the Audit and Risk Committee.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within City of Wolverhampton Council where fraud is more likely to occur?</p>	<p>The areas of greatest risk are housing tenancy, council tax, personal budgets, Covid-19 related business and other support grants, procurement and business rates.</p> <p>As with all large organisations there is a likelihood that fraud will be taking place in some shape or form, and there are a small number of ongoing investigations into cases of suspected fraud. The Council takes into account the findings in publications such as the CIPFA "Fraud Tracker Survey" which identifies fraud trends, and those areas more susceptible to fraud. From this a Fraud Risk Register has been developed, which in turn, is used to inform and drive the Counter Fraud plan. The Council also works closely with Wolverhampton Homes in order to help tackle the risk of housing and tenancy related fraud.</p>
<p>6. What processes do City of Wolverhampton Council have in place to identify and respond to risks of fraud?</p>	<p>The Counter Fraud Team, which sits within Audit Services, leads in raising fraud awareness across the Council and in promoting an anti-fraud culture. The team carries out investigations into areas of suspected or reported fraudulent activity. The team maintains the Council's fraud risk register and produces and maintains the Counter Fraud Plan. In addition, they lead on the Cabinet Office's National Fraud Initiative (NFI) exercise.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for City of Wolverhampton Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Audit Services have given an unqualified opinion on the adequacy and effectiveness of the Council's internal control system for a number of years. Individual internal audit reviews are undertaken in-year, and Audit Services report back, where appropriate, on individual areas where controls could be improved. Recommendations will then be made in order to improve any weaknesses found, and key recommendations are later followed up.</p> <p>Audit also report any key control weaknesses at each meeting of the Audit and Risk Committee. The Council's Counter Fraud Team which sits within Audit Services incorporates a broad skills base which provides the resources to perform counter fraud and investigation activities and strengthens the council's ability to respond to fraud. There are not any known areas where there is a potential for override of controls or inappropriate influence over the financial reporting process.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details.</p>	<p>There are no known areas for potential misreporting. The fraud risk register, counter fraud plan and audit plan are in place to minimise the potential for misreporting.</p>

Fraud risk assessment

Question	Management response
<p>9. How does City of Wolverhampton Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The Council has the following policies and procedures (which broadly set out the nature of concerns they cover) to help raise the awareness of, and combat fraud:</p> <ul style="list-style-type: none"> • Anti-Fraud and Corruption Policy and Procedure • Whistleblowing Policy and Procedure • Anti-Money Laundering Policy and Procedure • Raising Fraud Awareness Guide <p>Where appropriate, these documents are reviewed by the Audit and Risk Committee, and are available on the internet. The internet page on fraud has been designed to help strengthen the ease in which potential fraud can be reported on-line. Employees will also learn about business practices and ethical behaviour through the following:</p> <ul style="list-style-type: none"> • Codes of Conduct • induction training • accountability arrangements signed by all senior officers • contracts and their standard exclusions • adherence to procurement procedures • aide memoires from Monitoring Officer around gifts & hospitality policy at key times of the year. <p>The policies referred to above encourage employees to report any concerns, and these include full contact details – including a confidential hotline. The Council's internet site allows on-line reporting.</p> <p>The Council has also recently entered into an arrangement with See Hear Speak Up who offer an independent whistleblowing service which allows employees to report any matters of concern they may have in a secure and confidential manner. The availability of this service has been well promoted across the Council.</p> <p>There have been no significant issues recently reported.</p>

Fraud risk assessment

Question	Management response
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Senior Officers and Members who have powers to influence decisions are potentially the highest risk posts in respect of fraud and corruption.</p> <p>Senior Officers and Members are required to declare interests on a register of interests and at meetings.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No instances of related party relationships or transactions are known to be fraudulent.</p> <p>Conditions of contact with third parties are in place to mitigate fraud risk, this includes refraining from providing gifts and payments.</p> <p>The Council's auditors would seek access where appropriate to third party records if fraud is suspected.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit and Risk Committee?</p> <p>How does the Audit and Risk Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>A quarterly Counter Fraud Update report is presented to each meeting of the Audit and Risk Committee detailing how the Council is tackling issues around fraud and where applicable includes details of any recent investigations into suspected fraudulent activity. The members of the Committee satisfy themselves that the outcomes are appropriate and any improvements in control have been identified.</p> <p>The committee also reviews and approves all of the Council's Anti-Fraud Policies and Procedures. This includes a detailed Counter Fraud Plan charting out the actions to be taken going forward, and the Council's Fraud Risk Register. As part of the Annual Internal Audit Plan, Audit Services undertake annual reviews of many of the Council's key financial systems – consideration of fraud forms part of these.</p> <p>The Council also fully participates in the Cabinet Office's National Fraud Initiative, and other national fraud benchmarking exercises, as appropriate.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Any potential whistle blowing complaints are logged and investigated. Where appropriate disciplinary and prosecution action is taken against the individuals involved.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details.</p>	<p>The Council has not received any reports under the Bribery Act.</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Risk Committee, is responsible for ensuring that City of Wolverhampton Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Risk Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does City of Wolverhampton Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>A number of controls are in place. Management place reliance on these controls. In addition, there is an annual programme of work from Audit Services which in part covers legal matters. Directors also meet daily in the morning to discuss issues of topical concern including any legal matters. SEB also meets weekly for wider briefings across the business.</p> <p>We are not aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements.</p>
<p>2. How is the Audit and Risk Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The findings and recommendations from the work of Audit Services, with key issues being reported back to the Audit and Risk Committee. Also, each Director is required to sign an annual assurance statement, and this helps inform the Annual Governance Statement that is reported to the Audit and Risk Committee.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details.</p>	<p>None as at today (22.2.2022)</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details.</p>	<p>None as at today (22.2.2022)</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does City of Wolverhampton Council have in place to identify, evaluate and account for litigation or claims?	All litigation is commenced / defended / settled in consultation with the Monitoring Officer. All prospective prosecutions are evaluated against nationally adopted criteria. An annual appraisal of contingent liabilities is prepared and reported by the Monitoring Officer in consultation with the Risk Manager.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance? If so, please provide details.	None as at today (22.2.2022)

Related Parties

Matters in relation to Related Parties

City of Wolverhampton Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by City of Wolverhampton Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties disclosed in City of Wolverhampton Council's accounts? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and City of Wolverhampton Council • whether City of Wolverhampton Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>The Council has a £5.7m equity investment in a pilot for a new affordable housing product called 'Help to Own' (H2O).</p>
<p>2. What controls does City of Wolverhampton Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Forms re-devised to have prompts including aide-memoire to disclose Directorships. Letters to all councillors (or emails as appropriate) to remind them annually to update interests. Ability for councillors and officers to now update interests in "real-time" on-line through Modern.gov platform from home or wherever that have internet connectivity</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>The Council's Monitoring Officer reviews and approves transactions with related parties.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The Council's Monitoring Officer reviews and approves transactions outside the normal course of business.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by City of Wolverhampton Council will no longer continue?</p>	<p>The Medium Term Financial Strategy in the main provides this assurance, insofar as it demonstrates that the Council is able to deliver services, statutory responsibilities within the projected available resources.</p> <p>In addition, throughout the financial year, regular budget monitoring is undertaken by Budget Managers in conjunction with Strategic Finance. Throughout this process, financial assumptions for both the current year and future years are reviewed and updates reported to the Council's Cabinet in Budget reports.</p>
<p>2. Are management aware of any factors which may mean for City of Wolverhampton Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>No - the management are not aware of any factors which may mean the City of Wolverhampton Council is unable to continue to deliver on its statutory services.</p> <p>The MTFS provides the assurance that the Council is able to deliver statutory services within the resources available.</p>
<p>3. With regard to the statutory services currently provided by City of Wolverhampton Council, does the Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for City of Wolverhampton Council to cease to exist?</p>	<p>Yes, the Council expects to continue to deliver statutory services for the foreseeable future. There are no plans at this point in time for any other public authority to delivery statutory services on behalf of the City of Wolverhampton Council.</p>
<p>4. Are management satisfied that the financial reporting framework permits City of Wolverhampton Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes, the City of Wolverhampton Council is satisfied that it can prepare its financial statements on a going concern basis and that it will provide a faithful representation of the items in the financial statements.</p>

Accounting estimates

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Risk Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Risk Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	<ul style="list-style-type: none"> • Valuation, depreciation and impairment of property, plant and equipment • Expected credit losses • Provision for liabilities (e.g. PFI) • Financial guarantees • Valuation of defined benefit net pension liability
2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?	Officers undertake an annual risk assessment, identifying and addressing risks prior to closedown.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Management consult guidance, e.g. the Code of Practice on Local Authority Accounting and RICS guidance.
4. How do management review the outcomes of previous accounting estimates?	Management look back retrospectively to assess whether previous accounting estimates were borne out in reality.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	So far, no changes have been made to the estimation processes in 2021/2022. This will be reviewed through closedown.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Management commission specialist skills or knowledge when, for example expert knowledge or resource is not available in-house.
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	The Council determines what control activities are needed through liaison with internal audit, referring to the Code of Practice on Local Authority Accounting and other guidance, attendance at seminars and workshops (e.g. Grant Thornton's annual Local Government Accountants Workshop and IFRS 16 workshops held by Chris Brain Associate) and through liaising with other authorities (e.g. as part of the West Midlands Accountancy Officers Group)
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Management review the output of service providers and the assumptions underpinning them, challenging any discrepancies or unexpected outcomes.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	Accounting estimates are discussed at Audit and Risk Committee, as part of the financial statements and during training sessions provided to members prior to them receiving the audited financial statements. To further enhance oversight and governance, for 2021-2022 we will hold workshops where we will explain significant accounting estimates.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?</p>	<p>None as of today (22.02.2022), however this will continue to be monitored through closedown.</p>
<p>11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?</p>	<p>Accounting estimates are kept under review throughout the year by Strategic Finance, but formally reviewed each year by the Director of Finance in preparation of the financial statements. The outcome of this formal review is reflected in Appendix A. This Committee provides the opportunity for challenge and any queries.</p>
<p>12. How is the Audit and Risk Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>Please see above.</p>

Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	<p>Other land and buildings including surplus assets:</p> <ul style="list-style-type: none"> • over £1m, externally valued annually at fair value or depreciated replacement cost. • under £1m, externally valued as part of a 5 year rolling programme at fair value or depreciated replacement cost. • Community assets, vehicles, plant and equipment, infrastructure and assets under construction - valued at depreciated historical cost. • Intangibles - valued at amortised cost 	<p>The asset revaluations are critically reviewed by the Strategic Finance team and the Estates team with any significant variances from previous valuations or expectations, queried and discussed with the valuers. In the period between valuations a review is carried out annually based on appropriate indices or changes in market conditions to establish whether there has been any material change in the asset values.</p> <p>The robustness of the key controls are assessed by internal audit as part of the annual Fixed Assets audit, undertaken annually in February/March.</p> <p>Strategic Finance also uses Grant Thornton's control matrix which includes reconciliation and verification checks.</p>	Yes – external valuer	<p>Valuations are carried out in accordance with RICS guidance and the Code of Practice on Local Authority Accounting.</p> <p>Management consider the estimation uncertainty and calculate the impact of a 1% or 5% fluctuation in other land and buildings values.</p>	No

Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Council dwelling valuations	Dwellings- full indexation review every year and a beacon site visit every 5 years on an existing use-social housing basis.	As above Officers also benchmarks the valuation outcome of the Council's housing portfolio with other Councils.	Yes – external valuer	As above.	No
Investment property valuations	Investment properties - valued annually at fair value or depreciated replacement cost.	As above	Yes – external valuer	As above.	No
Depreciation	Based on the useful economic life of the asset.	Useful economic life is assessed when valuations are carried out. In addition a list of assets is sent to service managers annually to obtain an update on dilapidated or damaged assets. The robustness of the key controls are assessed by internal audit as part of the annual Fixed Assets audit, undertaken annually in February/March. Strategic Finance also uses Grant Thornton's control matrix which includes reconciliation and verification checks	Yes – external valuer	The valuer is appropriately professionally qualified.	No

Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	The valuation is calculated by an actuarial expert, taking into account the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, expected returns on pension fund assets and discount rates.	Reasonableness check of the Actuary's report and the assumptions used.	Yes	Valuations are carried out in accordance with IAS19. The actuary provides sensitivity analysis for several assumptions including discount rate and life expectancy of scheme members.	No
Level 2 investments	<p>Surplus assets: Fair value estimated at highest and best use from a market participant's perspective</p> <p>Investment properties: Initially measured at cost and subsequently measured at fair value. Fair values have been determined by multiplying estimated net income by an appropriate investment yield or by reference to the value of similar assets.</p> <p>Loans : The fair values of the loans and 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.</p>	Valuations are reviewed by Strategic Finance.	Yes	<p>For surplus assets and investment property: estimated market rentals and yields</p> <p>For PWLB loans fair value has been calculated using new loan rates. For non-PWLB loans, PWLB new loan rates have been applied.</p>	No

Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Level 3 investments	Birmingham Airport Holdings: Earning based valuation - earnings multiples are based on an average of the lower-quartile earnings and transaction multiples for the industry. The valuation is then reviewed by external valuer BDO.	Valuations are carried out by external valuer ('BDO'). Following this, the asset revaluations are critically reviewed by Solihull Council (as lead authority) and the City of Wolverhampton Council's Strategic Finance team, with any significant variances from previous valuations or expectations, queried and discussed with Solihull Council.	Yes	Assumptions are selected by the valuer in accordance with the Code of Practice on Local Authority Accounting. Strategic Finance review these assumptions and challenge where necessary. Management consider the estimation uncertainty and calculate the impact of a 1% or 5% fluctuation in other land and buildings values.	No
	WV Living shares: Valuation based on historic cost	Accurate record-keeping on financial system.	No	Based on historic cost	No
Provisions	Provisions are made where an event has taken place which gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate can be made.	Legal liabilities Insurance Non Domestic Rates Equal Pay	No	Charged in the year the Council becomes aware of the obligation.	No

Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Provisions are made where an event has taken place which gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate can be made.	Legal liabilities Insurance Non Domestic Rates Equal Pay	No	Charged in the year the Council becomes aware of the obligation.	No
Accruals	The Council uses a purchase order system which creates accruals at year end.	These accruals are checked by Finance and the services before being loaded into the General Ledger at year end. Training is provided to Finance at an annual closedown workshop and workshops are held for requisitioners and budget managers through the year and in the run up to year end, on how to manage and close their purchase orders. Management also monitor and review through monthly budget monitoring and the outturn position at year end.	No	Finance and the services have adequately checked the accruals generated by the purchase order system, and have created manual accruals for any missing or additional ones needed.	No

Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Credit loss and impairment allowances	Expected credit losses are recognised on all financial assets held at amortised cost (or where relevant Fair Value through Other Comprehensive Income (FVOCI)). Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations.	The Council's Head of Revenues and Benefits provides intelligence on categories of debt. Strategic Finance consider this intelligence to check it is in line with their own thinking and understanding. Internal audit are also used to provide additional insight through their research on particular companies, e.g. using Creditsafe.	No	Historical trends over the last 5 years have been considered and compared to current predictions. Sensitivity analysis is also undertaken around collection rates.	No
Finance lease liabilities	The accounting entries are derived from the lease models and are calculated as the Present Value of future payments.	The residual value is annually reviewed by the valuer, and the model updated if necessary.	Yes	Assumption that there has been no significant change to the parameters in the model. If significant changes are identified the model will be amended to reflect the changes.	No

Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI Liabilities	The accounting entries are derived from the PFI accounting models which were prepared, based on the operators financial model, at the commencement of the various schemes.	Models are updated annually from information provided by finance and operational staff.	No	Assumption that there has been no significant change to the parameters in the model. If significant changes are identified the model will be amended to reflect the changes. The external company compares the interest rate built into the model, to PWLB rates and Market Debt rates.	No
Financial Guarantees	The pension fund provides data on pension guarantees, the actuary has provided a model for quantification of potential liabilities. The level of provision for these quantities are determined by taking into account the factors outlined in the controls column. For other guarantees, the Director of Finance reviews the organisation's audited statement of accounts and management financial reports, to arrive at an estimate.	Various factors are considered in determining the probability of the guarantees being called upon, including risk of failure of the organisation as informed by Creditsafe Business Failure Scores, knowledge of the organisation and membership profiles for the pension guarantees.	Actuary advice for pension guarantees.	Creditsafe has up to date information to inform their Business Failure scores. Management consider the impact of providing for these guarantees at various levels (e.g. 5% to 100% provision), discussing and agreeing the appropriate and prudent level of provision.	No

Appendix 2: Sector Update

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Audit and Risk Committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Government response to MHCLG Select Committee report on Local Authority financial sustainability & the section 114 regime – MHCLG

Government has published a response to the Housing, Communities & Local Government (HCLG) Committee report on local authority financial sustainability and the section 114 regime, published in July.

The HCLG report states “In recent years, the financial sustainability of local government has faced successive challenges, including increased demand for services, especially social care, changes to the level of funding equalisation between councils and, most recently, the COVID-19 pandemic. In some instances, councils have been in such acute financial trouble that they have approached the Ministry of Housing, Communities and Local Government for financial assistance; three of these—Northamptonshire in 2018, Croydon in late 2020 and Slough in July 2021—issued section 114 notices, essentially declaring they had run out of money. Our inquiry has sought to identify the most serious threats facing local councils’ finances. In light of the various factors we consider in the report, including the somewhat delayed Fairer Funding Review, renewed discussion about property taxes and the need to reform funding for social care, the time is right to consider a more radical review of local government finances—and our report makes various recommendations about how this should be done. We also consider what happened at Croydon—which prompted us to look at the section 114 regime—in the annex to our report.”

The report includes sections on:

- Social Care
- Funding
- COVID-19
- Local authority commercial investment
- Audit and control

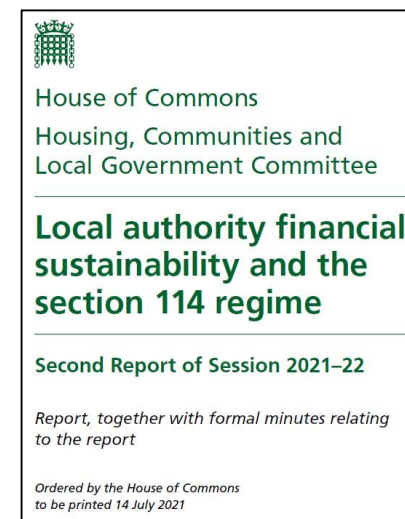
The report made 13 recommendations, and the Government response to these was published in October. The response notes “Moving forward, we will work to provide the sector with a sustainable financial footing, enabling it to deliver vital frontline service and support other government priorities. We will also take stock, including of the impact of the pandemic on local authority resources and service pressures, to determine any future reforms.”

The initial report can be found here:

<https://committees.parliament.uk/publications/6777/documents/72117/default/>

Government response can be found here:

<https://www.gov.uk/government/publications/local-authority-financial-sustainability-and-the-section-114-regime>



Public Accounts Committee (PAC) – Local auditor reporting on local government in England & government response

The PAC inquiry examined the timeliness of auditor reporting on English local public bodies' financial statements covering 2019-20. The National Audit Office (NAO) report, on which this inquiry is based, found that “delays in the delivery of audit opinions beyond the deadlines for publishing local authority accounts, alongside concerns about audit quality and doubts over audit firms' willingness to continue to audit local public bodies, highlight that the situation needs urgent attention.”

The PAC report found “Without urgent action from government, the audit system for local authorities in England may soon reach breaking point. With approximately £100 billion of local government spending requiring audit each year, the Ministry of Housing, Communities & Local Government (the Department) has become increasingly complacent in its oversight of a local audit market now entirely reliant upon only eight firms, two of which are responsible for up to 70% of local authority audits. This has not been helped by the growing complexity of local authority accounts, with audit firms now asked to carry out more work in each audit, comply with new regulatory demands and adapt to the new multifaceted landscape in which local authorities operate, while also struggling to hire and retain experienced auditors.”

Key conclusions were:

- The marked decline in the timeliness of external audit undermines accountability and hampers effective decision-making.
- There is a pressing risk of market collapse due to an over reliance on a small number of audit firms and significant barriers to entry.
- The commercial attractiveness to audit firms of auditing local authorities has declined.

- The rapidly diminishing pool of suitably qualified and experienced staff increases the risks to the timely completion of quality audits.
- We are not convinced that the recently announced new local audit arrangements will meet the pressing need for effective system leadership now.
- Unless local authority accounts are useful, relevant and understandable they will not aid accountability.

The report made recommendations in each of these areas. The government response was published on 28 October.

The PAC report and response can be found here:

[Timeliness of local auditor reporting on local government in England - Committees - UK Parliament](#)



House of Commons
Committee of Public Accounts

Local auditor reporting on local government in England

Eleventh Report of Session 2021–22

2020/21 audited accounts – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has reported that only 9% of local government audits for 2020/21 were completed by the end of September. This is a sharp contraction on the 45% filed on time for 2019-20, and is the third successive year where the number of accounts produced on schedule has reduced.

PSAA state “The challenges posed by COVID-19 have contributed to the current position. However, a range of further pressures documented in the Redmond Report are also continuing to impact performance. In particular there is a shortage of auditors with the knowledge and experience to deliver the required higher quality audits of statements of accounts, which increasingly reflect complex structures and transactions, within the timeframe expected. The growing backlog of audits is also a concern, with 70 of the 2019/20 audits still incomplete.”

Grant Thornton commented “Audit quality remains a priority for our firm and we continue to work hard with local audit stakeholders to ensure the delivery of high quality audits in as timely a fashion as is practicable. Unfortunately, much of this work will be delivered past the 30 September target date, owing to ongoing constraints posed by the COVID-19 pandemic and the backlog this has caused. We remain committed to public sector audit and are now focused on delivering the majority of our local audits by December 2021.”



The news article can be found here:

<https://www.psaa.co.uk/2021/10/news-release-2020-21-audited-accounts-psaa/>

2023-24 audit appointments – Public Sector Audit Appointments

Following a consultation exercise Public Sector Audit Appointments (PSAA) has invited all principal local government including police and fire bodies to become opted-in authorities. At the same time it published its procurement strategy and prospectus for the national scheme from April 2023. Both documents have evolved in response to the feedback provided by the market engagement exercise and consultation on the draft prospectus undertaken during June 2021.

PSAA state “Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and

- establishing arrangements that are able to evolve in response to changes to the local audit framework.

PSAA set out the proposed timeline, which anticipates contracts being awarded in August 2022.



The news article can be found here:

<https://www.psa.co.uk/2021/09/psaa-publishes-its-prospectus-and-procurement-strategy-and-invites-eligible-bodies-to-opt-in-from-april-2023/>

The procurement strategy can be found here:

<https://www.psa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/procurement-strategy/>

Guide to support Value for Money (VfM) analysis for public managers – CIPFA

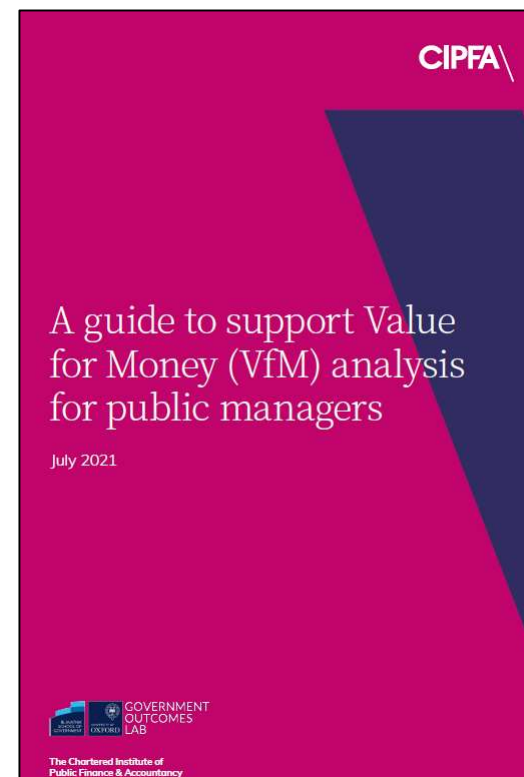
The Chartered Institute of Public Finance and Accountancy (CIPFA) has published this guide which complements a VfM toolkit which has been published separately. Both were developed under a collaborative project between Government Outcomes Lab (GO Lab) and CIPFA.

CIPFA state “The guide is aimed at public managers planning to assess Value for Money (VfM) of outcomes-based contract (OBC) programmes, or any other type of programme with an outcome-focus, using prospective information. This involves assessing economic validity of the programme with respect to ‘doing nothing’ as well as the closest comparator.”

CIPFA explain that the guide:

- Describes what VfM represents in public provision of social services with a special focus on outcome-based contracts (OBCs). In particular the guide emphasises the link between economy and effectiveness criteria.
- Promotes thinking about longer-term effects of interventions, such as outcomes and impact, at the design/ planning stage of programmes. This means that having a good appreciation for efficiency is helpful but not necessary, especially when outcomes are both identifiable and measurable.
- Explain how it could be used to appraise public programmes with respect to anticipated costs and value of them using prospective information.

The guide is available to CIPFA members through the website.



Climate change risk: A good practice guide for Audit and Risk Assurance Committees – NAO

The National Audit Office (NAO) has published this guide to help Audit and Risk Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a key role in supporting and advising the board and Accounting Officer in their responsibilities over risk management.

This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks. We have outlined specific reporting requirements that currently apply.

Our primary audience is ARAC chairs of bodies that we audit, but the principles of the guide will be relevant for bodies across the wider public sector. It promotes good practice and should not be viewed as mandatory guidance.

Climate change and the nature of its impacts on organisations globally is changing rapidly. This guide acknowledges the evolving nature of climate change and its associated risks and opportunities and will be refreshed in the future to reflect those changes.”

The guide includes sections on “How to support and challenge management”. This includes sections on governance and leadership; collaboration; risk identification and assessment; risk treatment, monitoring and reporting and continual improvement. There is also a “Complete list of questions that Audit and Risk Assurance Committees can ask” for each of these areas. The guide also includes “Key guidance and good practice materials” with links.



The report can be found here:

[Climate change risk: A good practice guide for Audit and Risk Assurance Committees - National Audit Office \(NAO\) Report](#)

Local government and net zero in England – NAO

The National Audit Office (NAO) report responds to a request from the Environmental Audit and Risk Committee to examine local government and net zero. It considers how effectively central government and local authorities in England are collaborating on net zero, in particular to:

- clarify the role of local authorities in contributing to the UK’s statutory net zero target; and
- ensure local authorities have the right resources and skills for net zero.

The NAO comment “While the exact scale and nature of local authorities’ roles and responsibilities in reaching the UK’s national net zero target are to be decided, it is already clear that they have an important part to play, as a result of the sector’s powers and responsibilities for waste, local transport and social housing, and through their influence in local communities. Government departments have supported local authority work related to net zero through targeted support and funding. However, there are serious weaknesses in central government’s approach to working with local authorities on decarbonisation, stemming from a lack of clarity over local authorities’ overall roles, piecemeal funding, and diffuse accountabilities. This hampers local authorities’ ability to plan effectively for the long-term, build skills and capacity, and prioritise effort. It creates significant risks to value for money as spending is likely to increase quickly.

MHCLG, BEIS and other departments recognise these challenges and are taking steps to improve their approach. Their progress has understandably been slowed by the COVID-19 pandemic, but there is now great urgency to the development of a more coherent approach.”

Key findings include:

- Central government has not yet developed with local authorities any overall expectations about their roles in achieving the national net zero target.
- There is little consistency in local authorities’ reporting on net zero, which makes it difficult to get an overall picture of what local authorities have achieved.
- Neither MHCLG nor HM Treasury has assessed the totality of funding that central government provides to local government that is linked with net zero.

The report can be found here:

<https://www.nao.org.uk/report/local-government-and-net-zero-in-england/>



Cyber and information security: Good practice guide – NAO

The National Audit Office (NAO) has published this guide to help Audit and Risk Committees scrutinise cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for Audit and Risk Committees to consider.

The NAO state “Audit and Risk Committees should gain the appropriate assurance for the critical management and control of cyber security and information risk.

Cyber security is the activity required to protect an organisation’s data, devices, networks and software from unintended or unauthorised access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management of processes as well as technical controls.

Our guide supports Audit and Risk Committees to work through this complexity, being able to understand and question the management of cyber security and information risk.

It takes into account several changes which affect the way in which we interact with and manage our information and can drive increased risk. These include changes to the way we work and live due to the COVID-19 pandemic and the ongoing demand to digitise and move to cloud-based services.

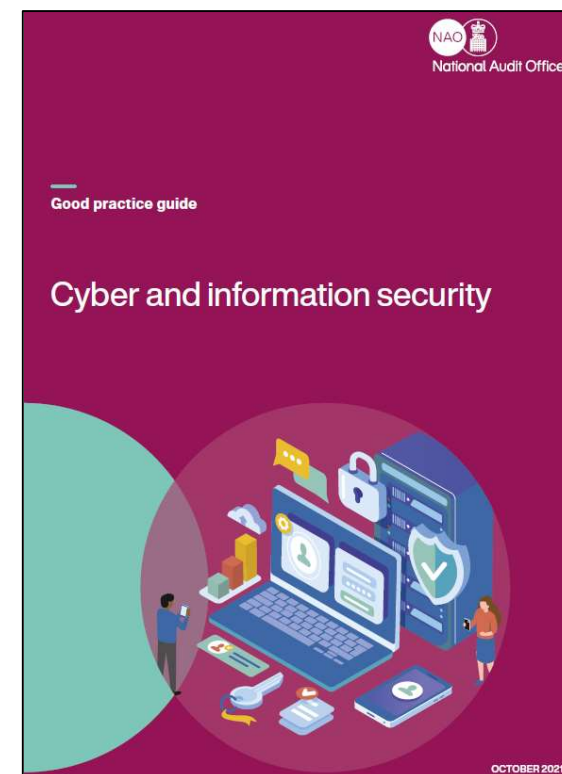
The strategic advice, guidance and support provided by government has also been updated to keep pace with these changes, detailing the impact and risks on the management of cyber security and information risk.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management
- Capability needed to manage cyber security
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.”

The report can be found here:

<https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/>





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