The Audit Findings for City of Wolverhampton Council

Year ended 31 March 2022

28 November 2022

Contents

Your key Grant Thornton team members are:

Jon Roberts
Key Audit Partner
T 0117 305 7600
E Jon.Roberts@uk.gt.com

William Guest
Audit Manager
T 0121 232 5319
E William.Guest@uk.gt.com

Matthew Berrisford
Assistant Manager
T 0121 232 5352
E Matthew.J.Berrisford@uk.gt.com

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.

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

Jon Roberts

Name : Jon Roberts
For Grant Thornton UK LLP
Date : 22 November 2022

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of City of Wolverhampton Council Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed in a hybrid way during July-November. Our findings are summarised on pages 5 to 25. Our work is still ongoing and therefore all adjustments have not yet been determined and concluded upon. The Audit adjustments identified to date are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

There are a number of matters still underway as at the time of writing but from the work done to date there are no matters of which we are aware that would require modification of our audit opinion. The outstanding matters are set out on page 6.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified regarding the financial statements.

As noted later in our report the issuing of our report is likely to be delayed as we await the outcomes on the on-going sector discussions in respect of accounting for infrastructure assets and the anticipated statutory override from Government.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay has previously been issued to the committee on the 26 September 2022. We expect to issue our Auditor's Annual Report by 31 January 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of medium-term financial resilience, group governance and the Civic Halls refurbishment. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We would expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in January 2023. However, despite the Council being below the Whole of Government accounts threshold for detailed work, we cannot complete our return and issue our certificate until the form and guidance are issued.

The Department for Levelling Up, Housing & Communities (DLUHC) are continuing to work on a Statutory Instrument with regard to infrastructure assets, with a plan to this being laid in Parliament on 30 November 2022 and coming into force on 25 December 2022. They continue to liaise with audit firms, and It is therefore hoped that this Statutory Instrument, together with updates to the CIPFA Code, will resolve the majority of the ongoing audit challenges related to infrastructure asset balances. Until the Statutory Instrument comes into force we are unable to provide an audit opinion.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the group internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response.
- From this evaluation we determined that specified audit procedures for Wolverhampton Homes Limited were required and for the City of Wolverhampton Housing Company an analytical review was required; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to substantially change our planned audit approach. We did, however, undertake additional testing in respect of reliefs given to council tax and business rates payers (see page 9).

Since the year end the UK has been moving into a significant economic downturn, we have considered the impact of this development through our post balance sheet events considerations.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we would normally anticipate issuing an unqualified audit opinion following the Audit and Risk Committee meeting on 28 November 2022. However, as noted on page 4, we are unable to provide our opinion until the Statutory Instrument regarding infrastructure assets comes into force.

The outstanding matters are listed on page 6 and are as at the time of writing. We will update the Committee verbally of progress against these matters at the meeting on 28 November.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements

Status of the audit: the outstanding matters as at the time of writing are set out below:

- Receipt of responses from management in respect of the valuations of other land and buildings and our consideration thereof
- Review of managements assessment with regards to the movement in property, plant and equipment valuations between the valuation date and the year end.
- Review of the changes made by the Council's external valuer, Jones Lang LaSalle, in respect of the valuation of council dwellings
- Receipt of responses from management in respect of the valuations of investment property and our consideration thereof
- Final manager and engagement lead review of all the above once completed

- Receipt of the evidence to support that our sample of assets held with nil net book value remain in the ownership of the Council
- Review of the bad debt provision and expected credit losses
- Review of responses from management in respect of our queries in relation to revenue grants received in advance and their disclosure within the financial statements and our consideration thereof
- Receipt of the IAS19 assurances from the pension fund auditor
- Review of responses from management in respect of our grant queries in relation to grant income and our consideration thereof
- Review of the transfers between the Housing Revenue Account and the General Fund
- Final manager and engagement lead review of all the above once completed

- Review of management's response in relation to the seven journals which are split between user IDs to identify whether a control weakness exists
- Receipt and review of the updated financial statements
- Obtaining and reviewing the management letter of representation
- Updating our post balance sheet events review, to the date of signing the opinion

Status

- High risk area for the audit of the financial statements
- Medium risk area for the audit of the financial statements
- Low risk area for the audit of the financial statements

2. Financial Statements

Our approach to materiality

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

We have revised the materiality and performance materiality values since the audit plan. This is due to a decrease in gross revenue expenditure.

We detail in the table on this page our determination of materiality for City of Wolverhampton Council and group.

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	11,000,000	10,900,000
Performance materiality	7,700,000	7,630,000
Trivial matters	550,000	545,000

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested high risk unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. We identified a control deficiency whereby certain journal types can be posted to the system by the same user inputting the journal without prior authorisation. We have assessed the risk of these journals and appropriately included the risk when identifying high risk journals for testing. Our review of these journals has not identified any errors or instances of management override of controls. We identified seven journals which have been split between different user ids which net to zero. Whilst this has no impact on the financial statements, we are discussing with management the reasons for this. Our detailed testing of the journals and accounting policies is complete. We have not identified any issues, other than the control recommendation detailed above, from our work. Our review of significant estimates in the financial statements has identified a couple of matters which are reported on in more detail later in this report. These errors are in relation to; the valuations of property, plant and equipment, the valuations of investment property and the net pension liability. Our work on these areas is on going and an update on these areas is included on pages 16 – 20.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Risk of fraud in revenue recognition and expenditure Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including City of Wolverhampton Council and its subsidiaries mean that all forms of fraud are seen as unacceptable. Whilst not a presumed significant risk, we have had regard to Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure may well be greater than that of income. Because of this we have also considered and rebutted the risk of improper recognition of operating expenditure. We will, however, continue to recognise the heightened audit risk in this area and reflect that in our testing of the year-end position.	Notwithstanding that we have rebutted this risk, we have still undertaken a significant level of work on the Council's revenue streams and expenditure, as they are material. We have: <u>Accounting policies and systems</u> • Evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code. • Updated our understanding of the Council's business processes associated with accounting for income. <u>Fees, charges and other service income</u> • Agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. <u>Taxation and non-specific grant income</u> • Income for national non-domestic rates and council tax is predictable and therefore we have conducted substantive analytical procedures. We also identified the reliefs given to payers, understood and documented the process for assessing claims and eligibility and then conducted substantive testing across the most significant reliefs. Our testing on reliefs is additional to our planned approach as set out in our Audit Plan. • For other grants we have sample tested items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. We have also tested a sample of income received and invoices raised post year-end to test for any transactions which have not been included within the financial statements, but related to the 2021/22 financial year. <u>Expenditure</u> • Updated our understanding of the Council's business processes associated with accounting for expenditure. • Agreed, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence. We have also tested a sample of payments made and invoices received post year-end to test for any transactions which have not been included within the financial statements, but related to the 2021/22 financial year. Our audit work has identified some disclosure issues, these are detailed in Appendix C. No other issues have been identified.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings, council dwellings and investment properties Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. The Council revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. The Council has changed valuer of its other land and buildings and investment property in the year. The valuer for 2021/22 is Wilks Head & Eve (previously Bruton Knowles). The Council's valuer for council dwellings has remained consistent with the previous year. The valuer for 2021/22 is Jones Lang LaSalle. We therefore identified valuation of land and buildings, council dwellings and investment properties, particularly revaluations and impairments, as a significant risk, requiring special audit consideration. We do not consider this risk to apply to the other components within the group as neither Wolverhampton Homes or City of Wolverhampton Housing Company Limited has material land and buildings which is carries as property, plant and equipment.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • communicated with the valuers to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • compared the assumptions within this year's valuations with the previous year to identify any potential errors; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and, • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. Council Dwellings We have identified a number of errors in relation to the valuation of council dwellings. This has led to the Council's valuer, Jones Lang LaSalle (JLL), making several adjustments to their original valuation. These include: • 93 bungalows valued under the incorrect archetype; • 948 properties which are of non-traditional construction which have been valued as if they were of traditional construction; • 605 properties which are of traditional construction which have been valued as if they were of non-traditional construction; • one beacon property which was no longer in the stock list but had been used to form the valuation of the archetype; and • a change in the valuation of three beacons having re-examined the market evidence. We have challenged the report produced by JLL as we were unable to reconcile the report to the underlying source data provided. We have since received a response and are in the process of reviewing this. The error is currently estimated to be an overstatement of £4.7m in the Council's Balance Sheet. As we have not completed our testing in this area, this has not yet been adjusted by the Council. The Council provided a schedule of 21,740 Council Dwellings to the valuer for valuation as at 31.03.22. We noted this included 21 Void properties earmarked for demolition. These properties are non-operational and should not therefore have been included in the schedule of operational Council dwellings provided to the valuer for valuation. Instead the Council should have assessed which category of PPE these assets should properly sit within, and requested the valuer to value these using the appropriate valuation basis. The Cumulative EUV-SH of these properties recognised on the balance sheet within Council Dwellings is £1,008,840. The Council is currently estimating what the monetary impact of this would be. The Council also holds a significant number of housing assets as non-beacon properties. We recommend that the Council considers whether any of these assets could be assigned to an archetype. Our sample was 20 beacons of which 19 passed and 1 failed our testing, the impact of which is detailed above.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings, council dwellings and investment properties (Continued) Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. The Council revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings, council dwellings and investment properties, particularly revaluations and impairments, as a significant risk, requiring special audit consideration. We do not consider this risk to apply to the other components within the group as neither Wolverhampton Homes or City of Wolverhampton Housing Company Limited has material land and buildings which is carries as property, plant and equipment.	Land and Buildings We have reviewed a substantial level of information in relation to the valuation of land and buildings within the Council's financial statements. Our work in this area is not yet complete. We are awaiting responses in relation to a number of queries we have directed to management and the valuer, Wilks Head & Eve (WHE). We are expecting that there will be a prior period adjustment due to an error which has been identified in the current year audit. This error relates to the valuation of schools. The valuation as at 31st March 2021 did not include the base area for schools which is required under Department for Education guidelines. The base area reflects the cost of construction of the school as well as the supplementary areas of the school such as staff rooms, playgrounds and other amenities. The Council currently classifies the Civic Hall as other land and buildings within Note 8. However, this asset should be classified as an asset under construction in line with the Code. The Council is currently assessing the impact of this on the financial statements. We have also identified an asset which is incorrectly classified as other land and buildings within Note 8. This asset is deemed to be non-operational as at 31 March 2022 and should therefore be reclassified into either surplus assets or assets held for sale. The Council is currently assessing the impact on the financial statements and considering whether any additional assets could be affected. Loxdale Primary School Land - This asset is currently classified within operational Other Land and Buildings and valued on an Existing Use Value (EUV) basis. However based on comments made by the valuer we challenged the Council on whether the classification is correct, or the asset should properly be classified as either surplus or assets held for sale, which would be valued on the basis of current market value. The Council confirmed that this asset should properly be classified as 'Surplus' as the asset was not operational at the 31 March 2022. The valuers view is that 'In this instance EUV is reflective of Current Market Value' and therefore no change to the carrying value is considered necessary. Our work on this area is currently outstanding as we are awaiting confirmation from Management as to whether any further errors exist. City Archives - Our audit review of year on year movements in valuations identified an error in the prior year valuation for this asset. The DRC valuation for the prior year used a BCIS rate for Art Galleries, which is not consistent with the nature of the asset and its use. Application of the correct BCIS rate for the prior year valuation results in a valuation £1,035k lower than that previously recognised. Our initial sample was 31 assets, of which 6 have passed and we are continuing to challenge the valuations of 25 assets. Several of these assets are due to the same query which is in relation to the build dates used in the obsolescence calculations. There are a number of other queries which we are currently awaiting responses to. This also includes our challenge on how management has satisfied themselves that assets not revalued are not materially different to current value at year end. Investment Properties Our work on this area is not yet complete as we are awaiting responses to a few queries which we have raised to management and the valuer. Our initial review of the Wilkes Head and Eve valuation report and supporting schedules has identified a potential issue in terms of the valuation basis adopted for some assets that do not align with the Council's accounting policies and the CIPFA Code. For example, the valuation basis for HRA shops is noted as EUV, however these are investment properties and should be valued at Fair Value. The Council have had confirmation from the valuer that this was an oversight and will not change the values of these assets.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£686m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • obtained assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements; and • tested that the actuarial report provided to Wolverhampton Homes Limited (WHL) has been correctly reflected in the group pension disclosures and that the assumptions used are reasonable. Our work in this area is substantially complete and we are waiting for the final assurances from the auditor of the West Midlands Pension Fund which will align with signing dates. We also need to review the adjustments made by the Council as a result of two items from the audit of the West Midlands Pension Fund. The first adjustment relates to a timing difference where the Fund records the value of a number of its investments on a lagged basis, meaning the value is based on the value at the previous quarter adjusted for know cash movements, this is a situation that occurs each year. The second adjustment is in relation to the rate of return used to calculate the value of its investments. The Actuary's initial rate of return was lower than the actual rate based on the Pension fund's financial statements. The Council has obtained a revised report from the actuary covering both adjustments which has resulted in a reduction of the pension fend net liability of £7.9m We are awaiting formal notification of the total impact from the pension fund auditor. Once this is received, the Council have expressed that they will make the adjustment to the financial statements. Our work on this area is not yet complete due to the matters outlined above.

2. Financial Statements – Other risks

Risks identified in our Audit Plan	Commentary
Operating Expenses Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.	We have: • evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness; • gained an understanding of the Council's system for accounting for non-pay expenditure; • applied elevated risk procedures and tested a sample of balances included within trade and other payables; • tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period; and As part of our testing of creditors, we have identified 6 errors totalling £55k. The errors have arisen due to: - the Council over accruing for an expense where the invoice had not yet been received; - the Council recognising expenditure which related to the 2022/23 financial year as a creditor is 2021/22; and - the Council including invoices in their creditors which no longer have an obligation The impact is an overstatement of creditors, the extrapolated error is £2,614k. As this is below our performance materiality we are satisfied that this does not indicate a material issue. As this is an estimated error, the Council have not adjusted the financial statements but we have considered its impact as an 'unadjusted misstatement'.
Level 3 Investments – Birmingham Airport The Council has an investment in Birmingham Airport Holdings Limited (BAHL) that is valued as a Level 3 investment. By their nature Level 3 investment valuations lack observable inputs. This is because these shares are not quoted on a stock exchange and are valued using non-observable data. In order to determine the value, management commissions a review to ascertain the valuation of the investment as at the balance sheet date using an earnings based approach. Earnings multiples are based on an average of the lower-quartile earnings and transaction multiples for the industry, in this case, airports. The valuation of the Council's shareholding in Birmingham Airport Holdings Limited therefore represents an estimate by management in the financial statements due to the sensitivity of the estimate to changes in key assumptions. We therefore identified the valuation of the investment in Birmingham Airport Holdings Limited as risk requiring particular audit attention.	We have: • evaluated management's process in determining the fair value through use of an expert; • appointed our own internal experts to review the valuation and appropriateness of the methodology applied by the lead Council, Solihull MBC. This has been completed as part of Solihull's audit and, as part of this audit, we have sought assurances from our Solihull team; • considered the reasonableness of the estimate; and • reviewed the adequacy of the disclosure of the estimate in the financial statements. Our work on this area is complete and we have not identified any issues.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Wolverhampton Homes Limited	Grant Thornton UK LLP	Wolverhampton Homes Limited is a member of the Local Government Pension Scheme and a member employer of the West Midlands Pension Fund. The misstatements identified on page 11 which affect the Council, also affect the pension fund net liability of Wolverhampton Homes Limited. Wolverhampton Homes Limited have therefore adjusted their financial statements by reducing their liability for £1.2m due to the rate of return error. We are awaiting the pension fund auditor's letter to identify whether a further amendment is required before we conclude on this significant risk area.	This adjustment will affect the group balance sheet.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

Issue	Commentary
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PP&E note Infrastructure assets includes roads, highways and streetlighting. In 2021/22 the Council spent £4.8m on Infrastructure capital additions. As at 31 March 2022, the net book value of infrastructure assets was £141.4m which is over 17 times materiality. In accordance with the CIPFA Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address: 1. The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. 2. The risk that the presentation of the PP&E note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response.	To address this risk we: • reconciled the Fixed Asset Register to the Financial statements • obtained assurance that the UEL applied to Infrastructure assets is reasonable • documented our understanding of management's process for derecognising Infrastructure assets on replacement and obtained assurances that the disclosure in the PP&E note is not materially misstated. **Findings** We have completed the work as set out above. The Council does not derecognise Infrastructure assets on replacement. As such, we cannot conclude that the disclosure is not materially misstated. This is a national issue and, as set out on page 4, the Department for Levelling Up, Housing & Communities (DLUHC) are continuing to work on a Statutory Instrument with a plan to this being laid in Parliament on 30 November 2022 and coming into force on 25 December 2022. They continue to liaise with audit firms, and It therefore is hoped that this Statutory Instrument, together with updates to the CIPFA Code and forthcoming guidance on UELs, will resolve the majority of the ongoing audit challenges related to infrastructure asset balances

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £511.1m (per the draft financial statements)	The Council has engaged Wilks Head & Eve (previously Bruton Knowles) to complete the valuation of these properties. The Council has revalued £494.2m of its other land and buildings which represents a substantial percentage of the Council's asset base. The Council requires that the remaining assets are subject to a full, formal valuation on a five yearly cyclical basis. The Council seeks assurance that any assets not valued as at 31 March 2022 are not being held at a value which would be materially different to if they had been valued as at the balance sheet date. They do this through a desktop review undertaken by their valuers to test for any material movement in market value. We are currently in the process of reviewing the Council's assessment. Other land and buildings revalued in 2021/22 comprised specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings revalued in 2021/22 are not specialised in nature and are required to be valued at existing use value (EUV) at year end. The total net book value of other land and buildings was £511.1m, a net increase of £89.9m from 2020/21. Management and their valuer have taken into account available market data, and considered a range of available indices, and have used this to determine an appropriate estimate for the indexation of the Council's land and buildings.	We have engaged our own valuer to assist with our work and challenge in this area. There has been a change to the Council's valuer this year, this has led to additional challenge with regards to different assumptions used by Wilks Head & Eve. We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging the floor areas. We have discussed the appropriateness of the indices and assumptions used by the Council's valuer and are awaiting responses to our queries before we can conclude on this work, but have already identified some errors as set out on page 11.	TBC

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £50.8m	The Council has engaged Wilks Head & Eve (previously Bruton Knowles) to complete the valuation of properties as at 1st January 2022. All of the investment property assets were revalued during 2021/22. Investment properties are valued at fair value. Fair values have been determined by multiplying the estimated net income by an appropriate investment yield or by reference to the value of similar assets. The total year end valuation of investment property was £50.8m. A net increase of £5.2m, due to revaluations, from 2020/21.	We have engaged our own valuer to assist with our work and challenge in this area. There has been a change to the Council's valuer this year, this has led to additional challenge with regards to different assumptions used by Wilks Head & Eve. We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging the floor areas. We have discussed the appropriateness of the indices and assumptions used by the Council's valuer and are awaiting responses to our queries before we can conclude on this work, but have already identified some errors as set out on page 11.	TBC

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £890.6m	The Council owns in excess of 21,000 properties and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The year end valuation of Council Housing has risen significantly again this year from £844.3m at 31 March 2021 to £890.6mk at 31 March 2022.	We have engaged our own valuer to assist with our work and challenge in this area. The Council have the same valuer as in previous years, Jones Lang LaSalle. We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging the floor areas. We have set out our findings in relation to the valuation of council housing on page 10. We have tested that properties are included in the correct beacon, and that the valuations used are appropriate given the area and reduction for the social use factor. Our work in this area is ongoing due to the issues outlined on page 10.	TBC

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £694.3m	The Council's net pension liability at 31 March 2022 is £694.3m (PY £842.8m) comprising the West Midlands Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	• We have no concerns over the assessment of management's expert • We have no concerns over the assessment o the actuary's approach taken • We have used PwC as auditors expert to assess assumptions made by the actuary – see table below for the comparison made • No issues were noted in the completeness and accuracy of the underlying information used to determine the estimate • We have confirmed that the Council's share of LGPS pension assets is in line with expectations • We have confirmed that the increase in the estimate is reasonable • The disclosure of the estimate in the financial statements is considered adequate	TBC

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.7%	2.7 – 2.75%	✓
Pension increase rate (CPI)	3.2%	3.15 – 3.30%	✓
Salary growth	4.2%	3.65 – 5.8%	✓
Life expectancy – Males currently aged 45 / 65	22.9 / 21.2	21.4 – 24.3 / 20.1 – 22.7	✓
Life expectancy – Females currently aged 45 / 65	25.4 / 23.6	24.8 – 26.7 / 22.9 – 24.9	✓

As previously stated on page 12 we are currently awaiting the pension fund auditor's letter before we can conclude on this significant risk area.

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions - £14.7m The most significant of these provisions is the NNDR appeals of £10.3m.	The Council are responsible for repaying a proportion of successful rateable value appeals. Management use historic data relating to appeal success rates and the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) to calculate the level of provision required.	• We have not identified any issues with the completeness and accuracy of the underlying information used to determine the estimate. • We have considered the approach taken by the Council to determine the provision, and it is in line with that used by other bodies in the sector. • Disclosure of the estimate in the financial statements is considered adequate. • There have been no changes to the overall calculation method this year but see below for a change related to a specific item.	Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £34.4m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.	We have: • assessed whether the MRP has been calculated in line with the statutory guidance; • assessed whether the Council's policy on MRP complies with statutory guidance; • confirmed there have been no changes to the Council's policy on MRP; and • considered the reasonableness of the MRP charge. Government have consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. Government will issue a full response to the consultation in due course.	Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious

Assessment

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

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Risk Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit and Risk Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to those organisations with which it banks, borrows and in which it invests. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions. See Appendix C for the most significant amendments made to disclosures. In addition, a small number of amendments were made to improve clarity for the reader.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. We have not encountered any significant difficulties with accounts closedown, production of draft accounts and working papers. The auditing standards in relation to estimates require us to apply heightened scrutiny over the estimates in the accounts, particularly property and pension valuations. For property valuations in particular, there has been significant enquiry and challenge to both sets of valuers over the inputs and assumptions applied, as detailed on pages 10 and 11. Our work on these areas is incomplete pending receipt of outstanding responses to our queries and our consideration thereof, details of the outstanding items are set out on page 6.

2. Financial Statements - other communication requirements

Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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 entity'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, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other communication requirements

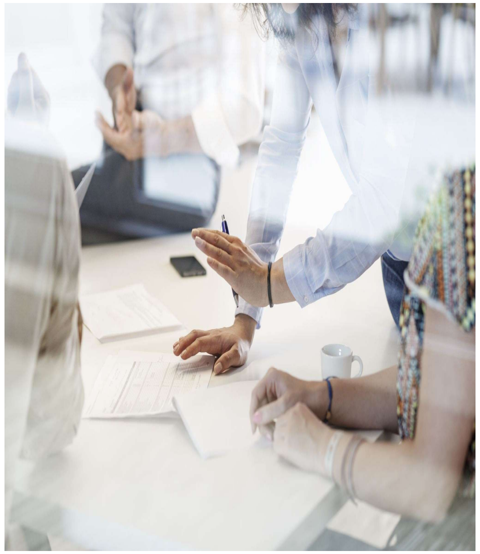
Our responsibility

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

Issue	Commentary
Going concern – Group	We are also required to be mindful of the group's ability to continue as a going concern. The group accounts consolidate the Council (going concern considerations for which are set out on the previous page) as well as Wolverhampton Homes Limited and the City of Wolverhampton Housing Company Limited. <u>Wolverhampton Homes Limited</u> Wolverhampton Homes Limited is reliant on the Council for a management fee, which typically provides around 87% of the Company's income The management fees are fixed every twelve months, with the long-term levels of management fee set indicatively within the Councils Housing Revenue Account business plan. The component auditors have considered the medium-term financial strategy, the cash flow forecast and associated available headroom, management's going concern assessment presented to the September Board meeting, along with the letter of support from the Council. The Council has also undertaken its own assessment to assure itself that the going concern assumption is appropriate in relation to this Company. We have no findings to report. <u>City of Wolverhampton Housing Company Limited [trading as WV Living]</u> WV Living's income is through loans provided by the Council as well as through house sales, the latter of which has been impacted due to the pandemic and resulting delays on building materials. The component auditors have considered the cash flow forecast, debt levels and managements assessment of going concern. The financial year was a strong one due to the sales made, in addition, debt levels have reduced. The cash flow forecast indicates that the Company has sufficient cash and loan facility funding to continue as a going concern. It has been deemed that there are no indication of events and conditions that indicate a material uncertainty or doubt over the ability of City of Wolverhampton Housing Company Limited to continue as a going concern.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to separate agenda item.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council does not exceed the specified group reporting threshold of £2 billion we are required to produce an assurance statement. We have been unable to commence the work as the guidance and reporting instructions have not yet been released.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of City of Wolverhampton Council in the audit report, pending completion of the WGA work and issuance of our Auditor's Annual Report.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor’s Annual Report. We have previously issues an audit letter explaining the reasons for the to the committee. We expect to issue our Auditor’s Annual Report by 31 January 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risks set out in the table below. Our work on these risks are underway and an update is set out below.

Risk of significant weakness	Work performed to date
Financial sustainability – We identified a risk of significant weakness in relation to the Council’s financial resilience over the medium-term due to financial pressures the sector is facing over the medium-term.	We have completed the following procedures in relation to this risk: - Held meetings with senior management; - Reviewed and critically assessed the Council’s financial strategies and supporting documentation; - Reviewed and critically assessed the budget setting and budget monitoring processes; and - Benchmarked the Councils key financial indicators against other Local Authorities;
Group Governance – We identified a risk of significant weakness in relation to group governance due to the nature of the Council’s group and challenges seen at other local authorities.	We have completed the following procedures in relation to this risk: - Held meetings with senior management; - Reviewed and critically assessed current group governance arrangements; and - Compared the Councils governance arrangements against recent failures that have occurred in other Local Authorities and assessed how they mitigate or minimise the potential risk of failure.
Civic Halls refurbishment – We identified a risk of significant weakness in relation to the arrangements to achieve value for money during the Civic Halls refurbishment due the challenges it has faced and the overall cost of the project. This risk impacts our assessment of the economy, efficiency and effectiveness of the Council’s arrangements.	We have issued a separate planning document that outlines our approach in this area.

4. Independence and ethics

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

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

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report (grantthornton.co.uk).

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following audit related services were identified which were charged from the beginning of the financial year to 28 November 2022, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats	Safeguards
Audit related			
Housing Benefit subsidy certification 2020/21 (May 2021 – January 2022)	16,000	For these audit-related services, we consider that the following perceived threats may apply: • Self Interest (because these are recurring fees) • Self Review • Management	The level of recurring fees taken on their own is not significant in comparison to the confirmed scale fee for the audit of £220,173 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors all mitigate the perceived self-interest threat to an acceptable level. Our team has no involvement in the preparation of the form which is certified, and do not expect material misstatements in the financial statement to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to the audit of the financial statements, and is performed after the audit of the financial statements has been completed. The scope of work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagements in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management.
Certification of Pooling of Housing Capital Receipts 2020/21 (January 2022)	2,750		
Teachers Pension return 2020/21 (October – December 2021)	4,500		
Housing Benefit subsidy certification 2021/22 (May 2022 – January 2023)	19,000		
Certification of Pooling of Housing Capital Receipts 2021/22 (January 2023)	5,000		
Teachers Pension return 2021/22 (October – December 2022)	6,000		
Non-audit related			
N/a	N/a	N/a	N/a

Appendices

A. Action plan – Audit of Financial Statements

We have identified three recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium – Limited Effect on financial statements	**Revaluation Reserve** The Council's revaluation reserve supporting working paper shows a closing revaluation reserve balance as at 31st March 2022 of £194m. This is £3.5m larger than the closing revaluation reserve balance on the balance sheet £190.5m (See Note 13). The variance is non-trivial.	Management should review the revaluation reserve to identify the reason for the difference and correct either the balance sheet or their asset system in the next years financial statements. **Management response** We have identified the difference and determined that the Balance sheet (the General Ledger), hence the accounts, are correct and that the asset system needs amending. This variance is due to the crossover from a previous system to the current system. Our Systems Specialist has been working on this and now there remain only three assets to amend with a value of £1.1m. This will be cleared for 2022-2023.
High – Significant effect on financial statements	**Council Dwellings** The Council hold a significant number of assets as non-beacon properties within their Council Dwellings. These are valued via an uplift based on the movement of the assets which are within beacons.	The Council should consider whether any of these assets could be assigned to an archetype. **Management response** In 2021-22 we reduced the number of non-beacon properties and are having on-going discussions with the valuer to allocate more of the non-beacon properties to archetypes, for 2022-23.
Medium – Limited Effect on financial statements	**Journal types not authorised** Certain journal types (GL & ACR type journals) can be posted to the system by the same user inputting the journal without prior authorisation from a different user.	Management should implement controls to ensure these journal types are authorised. Alternatively, management should implement a compensating control to periodically review these journals. **Management response** The majority of ACR (accrual) type journals are posted to the system in one central upload by the closedown team. Before this is processed it is circulated to Budget holders, requisitioners and Finance officers to check. After it is posted to the system, budget holders and finance officers check again as part of accounts closedown and outturn. We allow finance officers to post any accruals that may have been missed on the central upload in order not to delay the closedown of accounts, but again they are checked afterwards as part of accounts closedown and outturn. The other GL journals which were posted directly were done by finance users only and tend to be miscoding corrections which are discussed with the budget holders. Journals posted directly amounted to 26 out of 272 which were done by 5 finance users. Going forwards we will build in an independent review by Finance Business Partners, of any journals posted by a single user.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of City of Wolverhampton Council's 2020/21 financial statements, which resulted in two recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note one is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	MIRS consistency checker A consistency tool was provided to the Council to aid in its preparation of the draft accounts. The purpose of the tool is to help ensure that the financial statements are internally consistent. The tool was not used until after the draft accounts were produced leading to amendments.	Management have implemented the tool into their processes when preparing the financial statements.
X	Valuation process We previously recommended that officers enhanced its scrutiny of the year end valuations as well as review the in-year processes for disposals to ensure that any disposals made are notified to finance on a timely basis and actioned accordingly.	As detailed on pages 10 and 11 we have continued to find several errors in relation to the valuations of other land and buildings. Management response Following the recommendation, the Council introduced extra challenge and scrutiny through the use of the Estates Team and Senior Management, introducing sign off sheets and regular disposals meetings with service areas, so that all parties are kept informed. Officers annually run closedown and capital workshops where special training is given on capital closedown. As audit requirements continue to increase, the team each year have been introducing new checks. However due to the increase in audit scrutiny, the Director of Finance and Deputy Director of Assets are reviewing resources allocated to this work.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

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

Impact of potential further misstatements and uncertainties where audit work is not yet finalised

The table below provides details of potential adjustments that have been identified during the 2021/22 audit, but where our work is not yet complete. We have not yet reviewed the updated financial statements to confirm that these adjustments have been made. As our audit approaches completion we will need to ensure the values within this Appendix, in aggregate, do not give rise to material misstatement within the accounts. We therefore anticipate some further adjustments being made from this listing, along with further consideration of the qualitative impact of any final unadjusted matters (including where errors might net each other off, or where extrapolations could be reconsidered). The Audit and Risk Committee is required to approve management's proposed treatment of any unadjusted misstatements and we will provide a final list for this decision once our work is complete.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on net cost of services £'000
Wobaston Road, Land North of (i54)* This asset was classified as an Asset Held For Sale in the prior year. During 21-22 the Council revalued this asset upwards by £8,164k to mirror the FV valuation provided by the valuer at 1st January 2022. As per the Code assets held for sale should continue to be carried at the lower of their carrying amount and fair value less costs to sell. Recognition of any revaluation gains over and above the amount that it was initially recognised as held for sale are deferred until they are realised in a sale. On this basis the Council was incorrect to revalue this asset upwards to reflect the fair value valuation provided by its valuer. We are currently awaiting confirmation of the treatment of £2,400k of additions made to this asset and how they have been accounted for. Dr Revaluation Reserve Cr Assets Held For Sale	8,164 (Adjustment to OCI, therefore no impact on General Fund)	(8,164)	-
Overall impact	£8,164	(£8,164)	-

*We are currently in discussion with management as to whether this should have been classified as a surplus asset for some or all of the year. If the asset should have been classified as surplus, then revaluing the asset at fair value would have been appropriate, and this adjustment would be a reclassification of the full value of the asset rather than a reversal of the revaluation.

C. Audit Adjustments

Impact of adjusted misstatements

All adjusted misstatements, to date, are set out in detail below along with the impact on the key statements and the reported cost of services for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on net cost of services £'000
Investment Property Income and expenditure from Investment Property is £3.6m, and £0.5m respectively and has been recognised within the 'City Assets' line within Net Cost of Services. The classification is not in line with the Council's accounting policy which states that 'Rentals received in relation to investment properties are credited to the Financing and Investment Income and Expenditure line'. This error does not affect the overall surplus/defecit on the provision of services as it is a misclassification. Dr Cost of Services Cr Financing and Investment Income and Expenditure	(3,100)	-	3,100
Colton Hills Community School This asset is valued on a Modern Equivalent Asset basis based on forecast pupil numbers. The valuer omitted the forecast sixth form pupil numbers in error when valuing this school. This resulted in the asset valuation being understated by £1,741,500. Dr Property, Plant and Equipment Cr Revaluation Reserve	(1,742) (Adjustment to OCI, therefore no impact on General Fund)	1,742	-
Overall impact	(£4,842)	£1,742	£3,100

C. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Misclassification of i9 Office development During 2021/22 the Council purchased the i9 Office development. Within Note 8 Property, Plane and Equipment this has been recorded as an addition to Other Land and Buildings, and then subsequently transferred to Investment Property via the 'Other Changes - Gross value' line. The Council has determined that this asset meets the definition of an Investment property and therefore the addition should be recorded within the Investment property category. Entries within the OLB category and Other changes - Gross value line should be removed. The Net impact on the balance sheet is nil.	The Council should amend the Balance Sheet and Note 8 to reflect the i9 office development in the correct classification. This will have a nil impact on the total net current assets. Management response We will amend the financial statements for this finding.	TBC
Through our review of the accounts there were several typographical and consistency errors identified such as page references not being correct, amounts in primary statements not matching with the notes and grammatical errors.	Management should update their financial statements to correct these points. Management response We will amend the financial statements for this finding.	TBC
CIES - Financing and Investment income and expenditure On the face of the CIES Financing and Investment income and expenditure is reported as £47.2m gross expenditure. However, the supporting disclosure note 4 shows that this consists of expenditure totalling £53.9m and income totalling £6.7m.	The £47.2m within the CIES should be grossed up and separate amounts reported in the gross expenditure & gross income columns. (Note 1D Income and Expenditure by Nature will also require amendment - Currently both income and expenditure are understated by £6.7m). Management response We will amend the financial statements for this finding.	TBC
Grants Received in Advance There is no seperate revenue grants receipts in advance line within the balance sheet which should be included as per the Cipfa Code of practice on local authority accounting 2021/22 section 3.4.62. Currently, there are grant creditors totalling £98.7m that are included within the 'Creditors' line in the balance sheet.	The Authority should determine which of these meet the definition of a 'Grant receipt in advance', which are required to be recognised on a separate line in the balance sheet. Our work on this area is not yet complete as we are awaiting managements assessment. Management response We have identified the impact on the financial statements and will liaise with the auditors to adjust for this.	TBC

C. Audit Adjustments

Misclassification and disclosure changes (continued)

Disclosure omission	Auditor recommendations	Adjusted?
Note 8 Revaluation disclosure table The table discloses Other Land and buildings valued @ 31 March 2022 - £494.2. This figure includes a number of asset additions and de-minimis assets that were not subject to valuation during 21-22, and should therefore be reanalysed against the appropriate line.	The table should be amended to reflect the value of assets revalued as at 31 March 2022. Management response We will amend the financial statements for this finding.	TBC
Capital Commitments Capital Commitments reported on page 84 are reported as £68.9m. Audit testing back to supporting evidence has identified that the value should be slightly larger at £69.574m. The current disclosure therefore is understated by £674k.	The Council should update this disclosure on page 84. Management response We will amend the financial statements for this finding.	TBC
Heritage assets We have identified that disclosure requirement 4.10.4.1 b) (page 192) of the CIPFA Code has not been included in the financial statements. The Code requires that 'the financial statements shall set out the authority's policy for the acquisition, preservation, management and disposal of heritage assets. This shall include a description of the records maintained by the authority of its collection of heritage assets and information on the extent to which access to the assets is permitted. The information required by this paragraph may alternatively be provided in a document that is cross-referenced from the financial statements.'	The Council should update their accounts to comply with paragraph 4.10.4.1 b of the Cipfa Code Management response We will review the Code and update the financial statements accordingly.	TBC

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit and Risk Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Investment Property The Valuation date of the Council's Investment Property portfolio is at 1st January 2022. Using nationally published indices we have undertaken an assessment of the movement in value across the period 1st January 2022 to 31st March 2022. Our assessment is that had the assets been valued as at 31st March 2022 then the value would be £1,498k larger. Investment Property assets are therefore potentially understated by this value. Dr Investment property Cr CIES – Fair Value Gains on Investment property	(1,498)	1,498	-	Variance is estimated and is immaterial
Creditors From our sample selected, we have identified 6 errors totalling amount £55k. The impact is an overstatement of creditors, the extrapolated error is £2,614k. Dr Creditors Cr Expenditure	2,614	(2,614)	-	Variance is estimated and is immaterial
Overall impact	£1,116*	(£1,116)	-	

* Whilst we agree these are immaterial, if these were to be adjusted this would affect the Council's general fund balances

C. Audit Adjustments

Impact of prior year unadjusted misstatements identified within the 2021/22 financial statements audit

The table below provides details of adjustments identified during the current year audit which affect the 20210/21 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Aldersley Leisure Village Sports Hall - Land Our audit review of year on year movements in valuations identified an error in the methodology adopted by the Council's previous valuer when valuing the land element of a large site containing a building on an MEA basis. Using the year on year movement in valuation as a proxy for quantifying the error then in the prior year the land valuation for this asset was undervalued by c£1.4m. Additional work undertaken to establish the potential impact on other similar assets within the Council's portfolio has established that the maximum potential error is £1,998k. Dr Property, Plant and Equipment Cr Revaluation Reserve	(1,998) (Adjustment to OCI, therefore no impact on General Fund)	1,998	-	Impact is estimated and immaterial
City Archives Our audit review of year on year movements in valuations identified an error in the prior year valuation for this asset. The DRC valuation for the prior year used a BCIS rate for Art Galleries, which is not consistent with the nature of the asset and its use. Application of the correct BCIS rate for the prior year valuation results in a valuation £1,035k lower than that previously recognised. Dr Revaluation Reserve Cr Property, Plant and Equipment	1,035 (Adjustment to OCI, therefore no impact on General Fund)	(1,035)	-	Impact is immaterial
Bilston Retail Market Land Our audit review of year on year movements in valuations identified an error in the prior year valuation for this asset. The prior year valuation of the Market excluded the external market Land valuation in error. As a result the prior year valuation was understated by £1,071k. Dr Property, Plant and Equipment Cr Revaluation Reserve	(1,071) (Adjustment to OCI, therefore no impact on General Fund)	1,071	-	Impact is immaterial
Overall impact	(£2,034)	£2,034	£-	

C. Audit Adjustments

Impact of unadjusted misstatements identified within the 2020/21 financial statements audit

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements. When assessing unadjusted errors for 2021/22 we have to consider whether those unadjusted errors in the previous year when combined with our current year unadjusted misstatements could lead to a material error in aggregate. As the value in the previous year has a net nil impact on the balance sheet, this is not considered to be material.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
The Council had actioned a prior period adjustment to reflect that an assets disposed of during the year should have been classified as an asset held for sale in the previous period. As this was not material it did not meet the criteria of a prior period adjustment and therefore should have been corrected in year. This amendment reverses the prior period adjustment made.	-	-£1.6m Assets Held for Sale opening balances +£1.3m Other Land and Buildings opening balances +£0.3m Surplus Assets opening balances	-	Not considered to be material
Overall impact	-	-	-	

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
City of Wolverhampton Council Audit	£225,173	£TBC
Audit of subsidiary company Wolverhampton Homes Limited	£28,285	£TBC
Audit of subsidiary company City of Wolverhampton Housing Limited	£26,750	£TBC
Total audit fees (excluding VAT)	£280,208	£TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Housing Benefit subsidy certification 2021/22 (May 2022 – January 2023)	£19,000	£TBC
Certification of Pooling of Housing Capital Receipts 2021/22 (January 2023)	£5,000	£TBC
Teachers Pension return 2021/22 (October – December 2022)	£6,000	£TBC
Total non-audit fees (excluding VAT)	£30,000	£TBC

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