The Audit Findings for City of Wolverhampton Council

Year ended 31 March 2022

23 January 2023

Contents

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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.

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

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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-January. Our findings are summarised on pages 5 to 25. Our work is substantially complete, the remaining outstanding items are detailed on page 6. The Audit adjustments identified 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.

The Department for Levelling Up, Housing & Communities (DLUHC) issued a Statutory Instrument with regard to infrastructure assets, this came into force on the 25th December 2022. We have also received an update to the CIPFA Code in relation to this and the Council are currently working through implementing the changes required by the Code.

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 you have previously received an Audit Findings Report in November 2022, we have highlighted sections in blue which have changed throughout the document.

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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 completed all of our VFM work and our Auditor’s Annual Report is included as a separate agenda item. 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 risks of significant weakness in respect of medium-term financial resilience, group governance and the Civic Halls refurbishment. Details of our work and findings are included within the Auditor’s Annual 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 is reported in our Annual Auditor’s report. 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.

Significant Matters

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

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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 anticipate issuing an unqualified audit opinion following the Audit and Risk Committee meeting on 23 January 2023.

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 23 January.

Acknowledgements

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

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2. Financial Statements

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

🔴
- Receipt and review of the updated defined benefit pension scheme note given an error which has been identified by the pension fund auditor, further details are set out on page 14.

🟡
- Receipt and review of the Council's review of plant and machinery assets which have a nil net book value within Note 8, but are no longer owned by the Council
- Receipt and review of management's explanation as to why the useful economic lives of infrastructure assets do not match those suggested by CIPFA in the latest bulletin.
- Receipt and review of the Council's updated disclosure in respect of infrastructure assets.
- 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

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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, management have discussed this with the system provider and we are in the process of reviewing their response. 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.

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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: Accounting policies and systems • 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. Fees, charges and other service income • Agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. Taxation and non-specific grant income • 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. Expenditure • 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.

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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. JLL have produced a revised revaluation schedule for these findings, we have tested the revised valuations and assumptions applied in detail and have been able to conclude that the revised valuations are appropriate. The impact of this error is an overstatement of the Property, Plant and Equipment within the Balance Sheet of £4,719k. The Council have adjusted for this error. 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. As the potential impact is below performance materiality, the Council are not proposing to adjust for this. 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.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan

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.

Commentary

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 substantially complete. We are awaiting the Council's revised financial statements to ensure all amendments have been made correctly.

Findings which impact the balance sheet position as at 31 March 2022

Valuation of special schools - The Council has 4 Special schools where the valuation approach was found to be inconsistent across the current and prior year. This related to whether the school was 'ambulant' (meaning that the school provides services for pupils with moderate learning difficulties or severe learning difficulties) or 'non-ambulant' (meaning that the school provides services to pupils which require specialist equipment and facilities) which has an impact on the floor area assumption used by the valuer. This has resulted in an adjusted understatement in the current year of £3,337k. There is also an impact on the previous year's valuation which has been adjusted as part of the schools base area error above.

Civic Halls – Within the draft financial statements the Civic Hall was classified as an operational asset, however, due to the significant renovation works ongoing, this should have been classified as assets under construction. This change also impacts the value at which the asset is held and this has resulted in the value at 31 March 2022 being overstated by £5,777k. We have also considered the impact on previous years, management have adjusted for this error.

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. This does not impact the balance sheet and will be updated within Note 8.

Colton Hills Community School – The valuation of this asset did not include all pupil numbers as the valuer omitted the sixth form pupils from their MEA valuation. The impact of this is an understatement of £1,742k. Management have adjusted for this.

Build dates - As part of our testing, it was identified that the build dates applied when calculating obsolescence were not correct. The Council have obtained revised valuations for the correct build dates. The impact of these errors is an understatement of £2,378k on non-school assets. Management have adjusted for this in 2021/22. This also impacts the prior period, as the impact is not material, this error has not been adjusted for in 2020/21.

Assets not revalued – We have considered whether the value of assets not revalued as at 31 March 2022 would be materially different if they were revalued. We have applied a movement using indices provided in a market report from Gerald Eve.

Movement since the valuation date – In addition to our review of assets not revalued above, we have considered whether the value of the assets would change significantly if they were valued at 31 March 2022 as opposed to 1 January 2022. We have applied a movement using indices provided in a market report from Gerald Eve.

The impact of the assets not revalued and movement since the valuation date is a potential understatement of £7,194k. As the impact is not material and this is an estimate, management have not adjusted for this error.

Findings which impact the prior year

Given the amount of errors which have been identified in the prior year some adjustments have been made where when taken on their own they are not material. However, in aggregate they have a material impact on the balance sheet. We are satisfied that management have adjusted for the relevant findings and that the prior period is not materially misstated due to unadjusted misstatements.

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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 (continued) 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 impact of this, which has been adjusted by officers, is an understatement of Property, Plant and Equipment in the Balance Sheet as at 31 March 2020 of £28,021k and as at 31 March 2021 of £39,127k. 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. This is therefore an overstatement of property, plant and equipment. As this is not a material error in the prior year, this has not been adjusted. Bilston 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. As the impact is not material, management have not adjusted for this. Adult College – When we compared the year on year movements between valuations, it was identified that for this asset not all of the components had been taken into account within the 31 March 2021 valuation. This has resulted in an understatement of £6,569k, management have adjusted for this error due to the cumulative affect of errors on the prior year. The valuation as at 31 March 2022 is deemed to be correct. Aldersley Leisure Village – When we compared the year on year movements between valuations, it was identified that for this asset not all of the land was identified in the previous years valuation. This has resulted in an understatement of £1,998k. Management have not adjusted for this error. For the avoidance of doubt, Appendix C details the accounting entries for findings which impact the balance sheet position at 31 March 2022 and do not include a breakdown of the prior period adjustments.

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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.	Investment Properties 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 Existing Use Valuation (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. We have also discussed this with our auditor's expert and consider the response to be appropriate. Movement since the valuation date – In addition to our review of assets not revalued above, we have considered whether the value of the assets would change significantly if they were valued at 31 March 2022 as opposed to 1 January 2022. We have applied a movement using indices provided in a market report from Gerald Eve. The impact of the assets not revalued and movement since the valuation date is a potential understatement of £1,498k. As the impact is not material and this is an estimate, management have not adjusted for this error. We have identified that there are some assets which are incorrectly classified as investment properties. As these assets are not held solely for capital appreciation or rental income and have a purpose which helps to deliver the Council's strategic objectives these should be classified as property, plant and equipment. This has resulted in an adjustment which reduces investment property by £26,509k in 2021/22, £15,323k in 2020/21 and £16,703k in 2019/20. Property, plant and equipment increases by the same amounts.

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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, two adjustments have been identified, 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 known cash movements, this is a situation that occurs each year. The impact of this is a known impact of £6,703k and an estimated impact of £1,776k. The Council are currently confirming with the pension fund to ensure they agree with the proposed adjustment. 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 fund net liability of £8.2m The two adjustments above, result in an overall net decrease to the pensions liability. Our work on this area is not yet complete as we need to review the adjustments made by the Council have been processed correctly.

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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.

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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.

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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 The statutory instrument came into force on the 25 December 2022. Our work on this area is substantially complete, subject to the closure of two matters which are outstanding with the Council. First of all, we have compared the useful economic lives issued as guidance by CIPFA to the Council's judgement. We are awaiting responses from the Council as to the reasons for the differences. CIPFA have published a bulletin in January 2023 to set out the revised disclosures required by the Council. Management are currently processing these changes and we will review these once they have been made.

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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.	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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

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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.	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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●	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

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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 £890.6m 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.	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or 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
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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	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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 13, we are awaiting the updated financial statements to ensure the changes have been made correctly.

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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.	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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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.	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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●	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

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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, 11 and 12.

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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.

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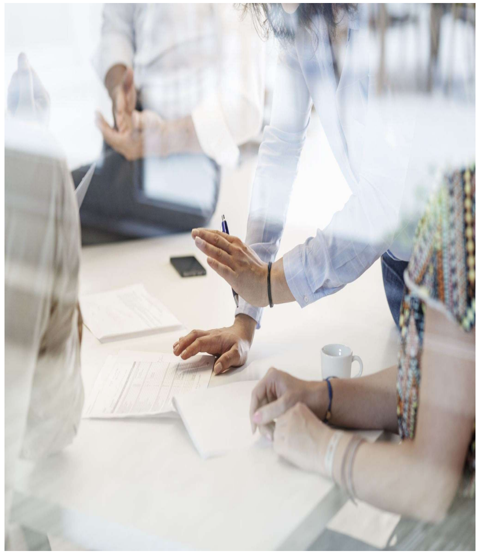
2. Financial Statements - other responsibilities under the Code

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.



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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.

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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

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3. VFM - our procedures and conclusions

We have completed all of our VFM work and our Auditor's Annual Report is included as a separate agenda item. By issuing our Auditor's Annual Report by 31 January 2023, we have complied 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. Further detail is included within the Auditor's Annual Report

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 reviewed the arrangements in place with regards to Civic Halls refurbishment since June 2018 across ten different lenses. The detailed report can be found within our auditor's annual report presented as a separate item to this committee.

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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).

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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

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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

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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.	We recognise that the Council has introduced additional challenge and scrutiny to improve the controls for the valuations process, however, as detailed on pages 10 - 13 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

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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	-
Council Dwellings (incorrect beacons) As detailed on page 11, the valuation of Council Dwellings is not correct as some of the archetypes contained both traditional and non traditional build types which carry different values. This resulted in an overstatement of property, plant and equipment of £4,718k. Dr Revaluation Reserve Cr Property, Plant and Equipment	4,718	(4,718)	

*The value of this adjustment is likely to reduce given our finding in relation to misclassification of office developments on page 38. A proportion of this will be correct to be above the line.

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
Civic Hall As detailed on page 11, the valuation of the Civic Hall is incorrect. The asset is currently classified as operational however, it should sit within assets under construction. This has a different valuation method and has resulted in the property, plant and equipment line on the Balance Sheet being overstated by £5,777k. The misclassification error is detailed on page 39. Dr Revaluation Reserve Cr Property, Plant and Equipment	5,777	(5,777)	
Property, plant and equipment – build dates As detailed on page 11, the build dates used in the valuation of property, plant and equipment were not correct. Management have obtained revised valuations and this has resulted in an understatement of property, plant and equipment of £2,378k Dr Property, plant and equipment Cr Revaluation Reserve	(2,378)	2,378	
Special Schools As detailed on page 11, two special schools were incorrectly valued due to them being classified as non-ambulant incorrectly. The impact of this is an understatement of property, plant and equipment of £3,337k Dr Property, plant and equipment Cr Revaluation Reserve	(3,337)	3,337	
Defined Benefit Pension Scheme – Net Liability As detailed on page 14, the net pension liability is overstated due to two errors, the known impact of these is £14,864k. Dr Net pension liability Cr Other comprehensive Income	(14,903)	14,903	
Overall impact	(£14,965)	£11,865	£3,100

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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 office developments As part of our work on investment property revaluations, we challenged as management as to the classification of their assets. This challenge identified 5 assets which were not held solely for capital appreciation or rental income as they were held to achieve the strategic aims of the Council. As set out on page 13, this has resulted in an adjustment which reduces investment property by £26,509k in 2021/22, £15,323k in 2020/21 and £16,703k in 2019/20. Property, plant and equipment increases by the same amounts. Dr Property, plant and equipment Cr Investment property There is a nil overall impact on net current assets.	The Council should amend the Balance Sheet and Note 8 to reflect the correct classification of these assets. 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 adjust the financial statements	TBC

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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
Tettenhall Wood Special School This asset is currently classified as a 'surplus' asset. However, the school is operational and should be reclassified to other land and buildings. The surplus asset category is overstated by £1,773k and other land and buildings is understated by the same amount. There is no impact on the balance sheet	The Council should update Note 8 to reflect the correct categorisation Management response We will amend the financial statements for this finding	TBC
Note 5 Taxation and non-specific grant income and expenditure There is a misclassification of £20.5m in the capital grants receivable, this should be reclassified to non ring-fenced government grants receivable.	The Council should update Note 5 to reflect the correct income and expenditure against each line. Management response We will amend the financial statements for this finding	TBC

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C. Audit Adjustments

Misclassification and disclosure changes (continued)

Disclosure omission	Auditor recommendations	Adjusted?
Loxdale Primary School Land This asset has been classified as operational other land and buildings within Note 8, however, this should be reclassified to surplus assets as the asset is not operational. We have considered the impact of this reclassification on the value and are satisfied this does not impact the value of the asset.	Note 8 should be updated to reflect the correct classification Management response We will amend the financial statements for this finding	TBC
Council Dwellings – Void properties It has been identified that a number of void properties have been classified as Council Dwellings within Note 8. These are not currently in use and should be reclassified as surplus assets. The impact on the balance sheet is Nil, however, Note 8 shows that Council Dwellings are overstated by £1,009k.	The impact is not material for 2021/22. The Council should review these assets and consider reclassifying them. Management response We will not adjust the 2021-2022 financial statements as this is not material, but we will reclassify this in 2022-2023.	No – not material
Civic Hall As detailed on page 11, this asset should have been classified as assets under construction. This has a different valuation method being cost minus impairments. The result of this misclassification is that Note 8 incorrectly shows the Civic Hall within other land and buildings. The monetary impact on the balance sheet is set out on page 36.	Management should consider reclassifying this asset to accurately reflect the condition of the asset. Management response We will amend the financial statements for this finding	TBC
Wobaston Road misclassification Wobaston Road is currently classified as an asset held for sale. However, at the balance sheet date this was not ready for sale and therefore should have been classified as a surplus asset. This will result in a change of classification from assets held for sale on the balance sheet to property, plant and equipment. The movement between lines on the balance sheet is £16,680k at 31 March 2022, and £6,302k for 31 March 2021.	The Council should reclassify this asset to accurately reflect the status of the asset. This will have a nil impact on the total net current assets. Management response We will amend the financial statements for this finding	TBC

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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 cost of services £'000	Reason for not adjusting
Investment Property* As stated on Page 11, we have reviewed the impact of assets which have not been revalued and also the impact on the valuation if the valuation was conducted at 31 March 2022. This results in an understatement of Investment Property of £1,498k 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
Property, Plant and Equipment – Assets not revalued and movement since valuation date As stated on Page 11, we have reviewed the impact of assets which have not been revalued and also the impact on the valuation if the valuation was conducted at 31 March 2022. This results in an understatement of Property, Plant and Equipment of £7,194k Dr Property, Plant and Equipment Cr Revaluation Reserve	(7,194)	7,194	-	Variance is estimated and is immaterial
Net Impact carried onto next page	(£6,078)	£6,078	-	

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

This table is continued on the following page.

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C. Audit Adjustments

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net cost of services £'000	Reason for not adjusting
Net Impact bought forward from previous page	(6,078)	6,078	-	
Defined Benefit Pension Scheme – Net Liability As detailed on page 14, the net pension liability is overstated due to two errors, the estimated impact of these is £1,776k. Dr Net pension liability Cr Other comprehensive Income	(1,776)	1,776		Variance is estimated and is immaterial
Overall impact	(£7,854)	£7,854	-	
Aggregate impact	£13,082	£13,082		

As the impact of these unadjusted misstatements are above our materiality level on an aggregate basis we are currently undertaking a qualitative assessment to determine whether any additional adjustments are required by the Council.

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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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E. Audit Opinion

Our audit opinion is included below.
We anticipate we will provide the group with an unmodified audit report.

Independent auditor's report to the members of City of Wolverhampton Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of City of Wolverhampton Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement (Council), the Comprehensive Income and Expenditure Statement (Group), the Balance Sheet, the Movement in Reserves Statement (Council), the Movement in Reserves Statement (Group), the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2022 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Finance with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements' section of this report.

E. Audit Opinion

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities [set out on page 28], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit and Risk Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

E. Audit Opinion

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972, the Local Government and Housing Act 1989 and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.
- We enquired of senior officers and the Audit and Risk Committee, concerning the group and Authority’s policies and procedures relating to:
    - the identification, evaluation and compliance with laws and regulations;
    - the detection and response to the risks of fraud; and
    - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group’s financial statements to material misstatement, including how fraud might occur, by evaluating officers’ incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
    - journal entries that altered the Authority’s financial performance for the year;
    - potential management bias in determining accounting estimates, especially in relation to:
    - the calculation of valuation of the Authority’s Land and Buildings, Investment Properties and Council Dwellings;
    - the calculation of the valuation of the net pension liability; and
    - accruals of income and expenditure at the end of the financial year.
- Our audit procedures involved:
    - evaluation of the design effectiveness of controls that the Director of Finance has in place to prevent and detect fraud.
    - journal entry testing, with a focus on significant journals at the end of the financial year, which impacted on the Authority’s financial performance.
    - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property and defined benefit pensions liability valuations.
    - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

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E. Audit Opinion

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property and defined benefit pensions liability valuations.

- Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditors'.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority and group including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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E. Audit Opinion

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of ‘proper arrangements’. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor’s Annual Report. In undertaking our work, we have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for City of Wolverhampton Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority’s members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jon Roberts, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

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