

# City of Wolverhampton Council Indicative audit risks 2022/23

**Year ending 31 March 2023**

24 July 2023



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

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# Key matters

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## National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation of or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent Value for Money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

# Key matters



## Our responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit and Risk Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit and Risk Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. As such we have elevated our assessed risk for completeness of expenditure and payables. Consistent with this, and in line with the presumed risk in all financial statements, we have also planned to address a significant risk in regards to management override of control – refer to page 6.

# Introduction

## Purpose

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

## Respective responsibilities

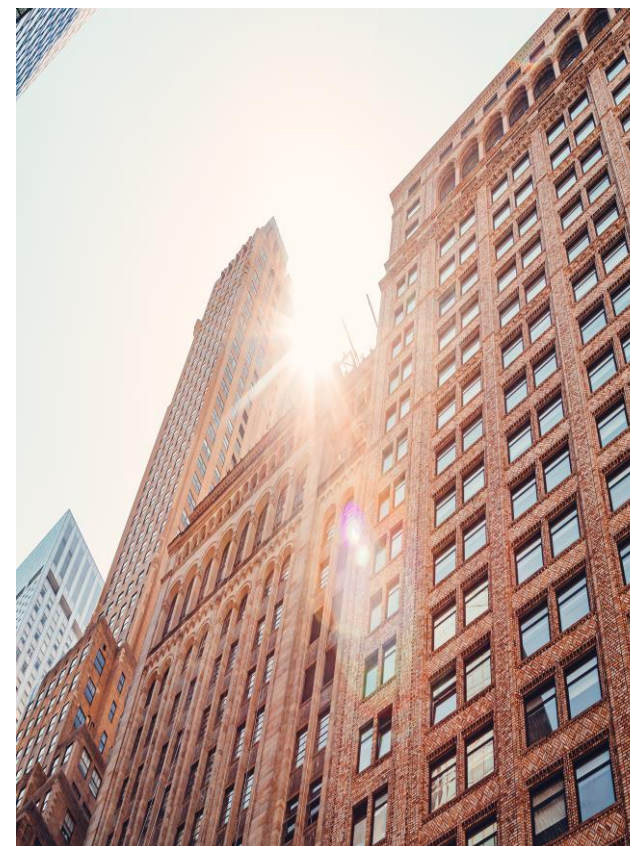
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of City of Wolverhampton Council]. We draw your attention to this document.

## Scope of our audit

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

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

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



# Financial statements audit 2022/23

## Materiality

### The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We have not yet determined the materiality for the year ended 31 March 2023, but anticipate it being based on the Council's forecast gross expenditure for the year.

The materiality set for our 2021/22 Council financial statements audit was £10.9m.

## Significant risks

Although we have started our planning work we are not at a stage where we can formally confirm the significant risks that we will be auditing. However, the sections below indicate likely areas on which we expect to focus our work for the Council's single entity financial statements.

ISA (UK) 240 includes two presumed risks:

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

**Valuation of land and buildings, council dwellings, and investment properties** – The Council is required to revalue its land and buildings and council dwellings on a sufficiently frequent basis to ensure that the carrying value in the financial statements is not materially different from the current value (or fair value for surplus assets) at the financial statements date. The Council is required to revalue its investment properties on an annual basis to ensure their fair value is reflected in the financial statements at the financial statements date. To achieve this, the Council requests valuations from its valuation experts. This valuation represents a significant estimate by management in the financial statements due to the value involved and the sensitivity of this estimates to changes in key assumptions. It is expected that the valuation of land and buildings, council dwellings, and investment properties will continue to be identified as a significant risk in 2022/23.

**Valuation of the local government 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 estimate is highly sensitive to changes in key underlying assumptions, such as discount and mortality rates, and these assumptions are subjective and require input from specialist actuaries on an annual basis. It is expected that the valuation of the net pension liability or asset will continue to be identified as a significant risk in 2022/23.

All of the above areas were also identified as significant risks for our 2021/22 financial statements audit. We will need to consider whether these significant risks also apply to the other components within the group.

# Financial statements audit 2022/23 (cont.)

## Other expected areas of focus

- **Valuation of investments held at fair value** – at 31 March 2022 the Council had material investments which were held at fair value, relating to investments in its subsidiaries and Birmingham Airport Holdings Limited. Valuation of these investments is subject to a high degree of judgement and as such the valuation of these investments is considered to be a significant estimate by management in the financial statements. It is expected that the valuation of investments held at fair value will continue to be identified as a significant risk in 2022/23.
- **Expenditure recognition** - in line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.
- In 2021/22, having considered the nature of the expenditure streams of the Council, we determined that there was no significant risk of material misstatement arising from improper expenditure recognition. We will revisit this assessment for 2022/23 but anticipate a consistent outcome.
- **Completeness of non-pay expenditure** - 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 uninvoiced costs. Management also undertakes an assessment of the levels of grant income received in the financial year to be deferred to future years based on the specific terms and conditions of funding. We therefore anticipate completeness of non-pay expenses being identified as a risk requiring particular audit attention.
- **IT general controls** – there is a revised auditing standard in force for the 2022/23 financial period, ISA (UK) 315 (revised), which enhances the understanding and documentation requirements for auditors in the area of IT general controls. We therefore expect a significant amount of audit time to be spent in this area.

# Value for Money 2022/23

As part of our planning work, we will consider whether there are any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we need to perform further procedures on. We may need to make recommendations following the completion of our work and will follow up the recommendations made in our 2022/23 Auditor's Annual Report.

## Risks of significant weakness

We have not yet undertaken our planning assessment, and therefore cannot confirm the risks we will be considering.

However, we anticipate following up on the recommendations we reported against as part of the 2021/22 review relating to financial sustainability and improving economy, efficiency and effectiveness. In total we made seven improvement recommendations in our 2021/22 Auditor's Annual Report, covering financial sustainability and securing economy, efficiency and effectiveness. We will follow up on the actions taken in response to our recommendations as part of our 2022/23 work.

## Potential types of recommendations

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



### Key recommendation

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

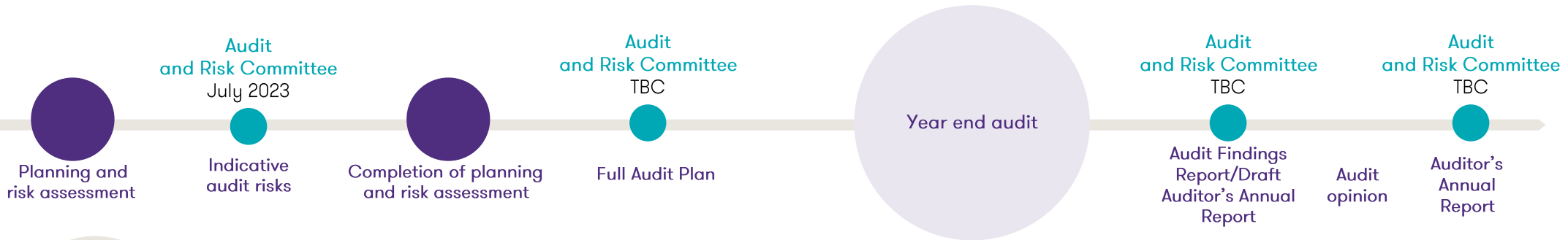


### Improvement recommendation

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



# Audit logistics and team



**Jon Roberts, Key Audit Partner**

Jon will be the main point of contact for officers and committee members. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice, ensuring that our audit is tailored specifically to the Council. Jon is responsible for the overall quality of our audit work, and will sign your audit opinion.



**Kirsty Lees, Audit Manager**

Kirsty will work with senior members of the finance team, ensuring that any issues that arise are addressed on a timely basis. She will attend Audit and Risk Committee and liaison meetings with Jon, undertake reviews of the team's work and ensure that our reports are clear, concise and understandable.

## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for City of Wolverhampton Council to begin with effect from 2018/19. The fee agreed in the contract was £145,860. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £5,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf.

# Audit fees

	Actual (or estimated) fee 2021/22	Proposed fee 2022/23
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

A full breakdown of the above Council audit fee, starting at the confirmed scale fee of £161,923, will be provided in the full Audit Plan.

## Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \[revised 2019\]](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

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# Independence and non-audit services

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## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Other services

The following table shows other services provided by Grant Thornton that have been identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

# Independence and non-audit services

Service	Fees £	Threats	Safeguards
<b>Audit related</b>			
Certification of Housing Benefits Assurance Process 2021/22	19,000	For these audit-related services, we consider that the following perceived threats may apply: <ul style="list-style-type: none"> <li>• Self-interest</li> <li>• Self-review</li> <li>• Management</li> </ul>	<p>The level of recurring fees taken on their own is not significant in comparison to the confirmed scale fee for the audit of £161,923 and in particular relative to Grant Thornton UK LLP's turnover overall.</p> <p>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.</p> <p>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.</p>
Certification of Pooling of Housing Capital Receipts 2021/22	5,000		
Certification of Teachers Pensions EOYC 2021/22	6,000		
Certification of Housing Benefits Assurance Process 2022/23	TBC		
Certification of Pooling of Housing Capital Receipts 2022/23	TBC		
Certification of Teachers Pensions EOYC 2022/23	TBC		
<b>Non-audit related</b>			
None identified			



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