



City of Wolverhampton Council audit plan

Year ending 31 March 2023

November 2023





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Key matters



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 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.

Audit Reporting Delays

In a report published in January 2023 the NAO has highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outlines a number of reasons for this and proposed actions. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Key matters



Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, will be discussed with the Director of Finance.
- 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 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. We have identified a significant risk in regards to management override of controls – refer to page 8.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of City of Wolverhampton Council ('the Council') for those charged with governance.

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group'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 and group 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.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land and buildings
- Valuation of council dwellings
- Valuation of investment property
- Valuation of the net pension liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Group audit

The Council is required to prepare group financial statements that consolidate the financial information of Wolverhampton Homes Limited and City of Wolverhampton Housing Company Limited (trading as WV Living).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness. We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Materiality

We have determined planning materiality to be £12.8m (PY £11.0m) for the group and £12.1m (PY £10.9m) for the Council, which equates to approx. 1.5% of your prior year gross operating costs. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of the 4 unadjusted prior period errors reported in our prior year Audit Findings Report. While the total value of these errors exceeds 50% of our materiality threshold, the majority of these errors related to PPE and investment property revaluations, which are already identified significant risks. We have not identified any additional risks and therefore have not reduced our materiality thresholds.

Clearly trivial has been set at £0.6m (PY £0.5m).

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our planning visit took place in April 2023 and our final visit will take place from October. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our proposed fee for the audit will be £218,673 (PY £235,173) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification
Presumed risk of fraud in revenue recognition (rebutted) ISA (UK) 240	Council and Group	<p>Under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement 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 related to revenue recognition.</p> <p>Having considered the risk factors set out in ISA (UK) 240, and the nature of the revenue streams at the Council, we have determined that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of public sector bodies, including this Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for the Council or for the Group, where a significant proportion of group revenue is generated by the Council.</p>
Risk of fraud related to expenditure recognition PAF Practice Note 10	Council and Group	<p>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 bringing forward expenditure into an earlier period). As most public bodies are net spending bodies, then the risk of material misstatements 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.</p> <p>Having considered the nature of the expenditure streams of this Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition for either the Council or for the Group.</p>

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.’ (ISA (UK) 315)

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls	Council and Group	<p>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of controls, and in particular journals, management estimates, and transactions outside the normal course of business, as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Council and Group	<p>The Council revalues its land and buildings assets on a rolling basis.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£510.9m in the Council's Balance Sheet at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date.</p> <p>We therefore identified valuation of land and buildings as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> engage an auditor's valuation expert; evaluate management's processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts, and the scope of their work; evaluate the competence, capabilities and objectivity of the valuation experts; write to the valuers to confirm the basis on which the valuations were carried out to ensure that the requirements of the Code are met;
Valuation of council dwellings	Council and Group	<p>The Council revalues its council dwellings on an annual basis.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£885.9m in the Council's Balance Sheet at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date.</p> <p>We therefore identified valuation of council dwellings as a significant risk of material misstatement.</p>	<ul style="list-style-type: none"> challenge the information and assumptions used by the valuers to assess the completeness and consistency with our understanding; assess the instructions issued by the Council to its valuers, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations; test revaluations made during the year to see if they had been input correctly into the Council's asset register; and evaluate the assumptions made by management for those land and building assets not revalued during the year or assets revalued during the year at a date other than the Balance Sheet date, and how management has satisfied themselves that these are not materially different from current value at year end.
Valuation of investment property	Council and Group	<p>The Council revalues its investment property on an annual basis.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£24.3m in the Council's Balance Sheet at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the fair value at the financial statements date.</p> <p>We therefore identified valuation of investment property as a significant risk of material misstatement.</p>	

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of net pension liability	Council and Group	<p>The net pension liability, as reflected in the Balance Sheet, represents a significant estimate in the financial statements.</p> <p>The net pension liability is considered a significant estimate due to the size of the numbers involved (£579.6m in the Council's Balance Sheet and £626.3m in the Group's Balance Sheet at 31 March 2022) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified the valuation of the net pension liability as a significant risk for the Council and for the Group.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the net pension liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (the actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liabilities; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary; • undertake 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; and • obtain assurances from the auditor of the 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's financial statements.

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Completeness of non-pay operating expenditure	Council and Group	<p>Non-pay expenditure on other goods and services represents a significant percentage of the Council's operating expenses.</p> <p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must 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). Management also uses judgement to estimate accruals of uninvoiced costs as at the Balance Sheet date.</p> <p>We therefore identified completeness of non-pay operating expenditure as a risk requiring particular audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness; • gain an understanding of the Council's system for accounting for non-pay expenditure; • test a sample of cash payments immediately prior to and following the year-end to ensure that the expenditure has been recognised in the correct financial period; and • test a sample of invoices received immediately prior to and following the year-end to ensure that the expenditure has been recognised in the correct financial period.
Valuation of investment in Birmingham Airport Holdings Limited	Council and Group	<p>The Council holds a material investment in Birmingham Airport Holdings Ltd (BAHL). This is a level 3 investment is held at fair value.</p> <p>Management commissions a review to ascertain the valuation of the Council's investment 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.</p> <p>The valuation of this investment is subject to a high degree of judgement and as such the valuation of this investment is considered to be a significant estimate by management in the financial statements.</p> <p>We therefore identified the valuation of investment in BAHL held at fair value as a risk requiring particular audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's process in determining the fair value through use of an expert; • appoint our own internal expert to review the valuation and appropriateness of the methodology applied; • consider the reasonableness of the estimate; and • review the adequacy of the disclosures of the estimate in the financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
City of Wolverhampton Council	Yes	Audit of the financial information of the component using component materiality	Council risks identified on pages 7 to 11. Given the significance of the Council to the Group, all significant risks identified for the Council are identified as significant risks for the Group.	Full scope audit performed by Grant Thornton UK LLP
Wolverhampton Homes Limited	Yes	Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements	Group risks identified on pages 7 to 11. The net pension asset of the entity has been identified as a significant risk for the Group given the size of the balances involved (£213m gross assets and £258m gross liabilities at 31 March 2022) and the associated complex accounting treatment. Therefore we will bring this balance into scope for the Group audit.	Specific scope procedures on the entity's net pension asset to be performed by component auditor Grant Thornton UK LLP. The nature, time and extent of our involvement in the work of the separate Grant Thornton UK LLP team will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of audit documentation and meeting with appropriate members of management.
City of Wolverhampton Housing Company Limited (trading as WV Living)	No	Analytical procedures at group level	Group risks identified on pages 7 to 11 – no specific risks identified for the Group arising from this consolidated entity.	Analytical procedures performed by the group auditor

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report, Annual Governance Statement, and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2022/23 financial statements, considering and deciding upon any objections received in relation to the 2022/23 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act; and
 - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

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.

Description	Planned audit procedures
<p>Determination</p> <p>We have determined financial statement materiality based on a proportion of the gross expenditure of the Group and Council for the financial year. Materiality at the planning stage of our audit is £12.8m for the Group and £12.1m for the Council, which equates to approx. 1.5% of your prior year gross expenditure.</p>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes; and – assist in evaluating the effect of known and likely misstatements in the financial statements
<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <p>We have not identified any balances within the financial statements where we will apply a lower materiality level.</p>
<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p>

Our approach to materiality

Description

Other communications relating to materiality we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Risk Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Planned audit procedures

We report to the Audit and Risk Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.6m (PY £0.5m). If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Risk Committee to assist it in fulfilling its governance responsibilities.

	Group amount	Council amount	Qualitative factors considered
Materiality for the financial statements	£12.8m	£12.1m	As the Council is a net spending body, the users of the financial statements are more likely to be interested in how the Council is spending its resources. Therefore we determine our materiality threshold based on the benchmark of the Council's gross operating expenditure.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 19.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Income	Planned level IT audit assessment
Unit4 Agresso	Financial reporting	£838m	Design and implementation of the ITGCs
Northgate	Council Tax, Business Rates, and Housing Benefits	£233m	High-level understanding of the system

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



Governance

How the body ensures that it makes informed decisions and properly manages its risks.

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our Auditor's Annual Report.

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, 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.

Daniel Fisher, Assistant Manager

Dan will work directly with the finance team and manage the day-to-day work of the more junior members of our audit team. He will complete work on the more complex areas of the audit, and will provide support to Kirsty as necessary.

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 ISAs 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 and 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 and will be discussed with the Director of Finance.

Audit fees

	Actual fee 2020/21	Estimated fee 2021/22	Proposed fee 2022/23
City of Wolverhampton Council audit	£215,710	£235,173	£218,673
Audit of Wolverhampton Homes Limited	£28,285	£30,900	£36,900
Audit of City of Wolverhampton Housing Company Limited (trading as WV Living)	£24,000	£26,750	£28,500
Audit of Yoo Recruit Ltd	£15,000	N/A	N/A
Total audit fees (excluding VAT)	£282,995	£292,823	£284,073

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.

Audit fees – detailed analysis

Total audit fees 2021/22 (excluding VAT)	£235,173
<i>New issues for 2022/23</i>	
Enhanced audit procedures for Payroll – change of circumstances	£500
Enhanced audit procedures for Collection Fund - reliefs testing	£750
Increased audit requirements of revised ISAs 315 and 240	£5,000
Further reduction on prior year's increases	(£18,250)
Total proposed audit fees 2022/23 (excluding VAT)	£218,673

All variations to the scale fee will need to be approved by PSAA

Audit fees – reconciliation

Proposed fee for 2022/23 breakdown

PSAA scale fee for 2022/23	£161,923
Audit of Group Accounts (not included in the Scale Fee)	£3,750
Enhanced procedures as a result of lower materiality	£3,750
PPE Valuation - appointment of auditor's expert	£5,000
Additional work on Value for Money (VfM) under new NAO Code	£20,000
Impact of ISA 540	£6,000
Enhanced procedures on journals in response to regulatory requirements	£3,000
Additional procedures to address other local risk factors – hybrid remote and on-site working	£5,000
Infrastructure	£2,500
Increased reviews in response to regulatory requirements	£1,500
Enhanced audit procedures for Payroll – change of circumstances	£500
Enhanced audit procedures for Collection Fund – reliefs testing	£750
Increased audit requirements of revised ISAs 315 and 240	£5,000
Total proposed audit fees 2022/23 (excluding VAT)	£218,673

All variations to the scale fee will need to be approved by PSAA.

Independence and non-audit services

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 Group and Council.

Other services

The other services provided by Grant Thornton have been identified on the following page.

The amounts detailed are fees agreed to date for audit related and non-audit related services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Group and 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
Audit related			
Certification of Housing Benefits Subsidy Claim 21-22	19,000	Self-interest (because these are recurring fees)	The level of these recurring fees taken on their own is not considered a significant threat to independence as the fees for these pieces of work in comparison to the total fee for the audit of £218,673 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, they are fixed fees and there is no contingent element to them. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefits Subsidy Claim 22-23	20,000		
Certification of Teachers Pensions EOYC 21-22	7,500		
Certification of Teachers Pensions EOYC 22-23	10,000		
Certification of Pooling of Housing Capital Receipts 21-22	7,500		
Certification of Pooling of Housing Capital Receipts 22-23	TBC		

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings	
Respective responsibilities of auditor and management/those charged with governance	•		ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•		
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•	This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•	
Significant matters in relation to going concern	•	•	
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•	We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a	
Significant findings from the audit		•	Respective responsibilities As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.
Significant matters and issue arising during the audit and written representations that have been sought		•	
Significant difficulties encountered during the audit		•	
Significant deficiencies in internal control identified during the audit		•	
Significant matters arising in connection with related parties		•	
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•	
Non-compliance with laws and regulations		•	The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Unadjusted misstatements and material disclosure omissions		•	
Expected modifications to the auditor's report, or emphasis of matter		•	



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