



The Audit Findings for City of Wolverhampton Council

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

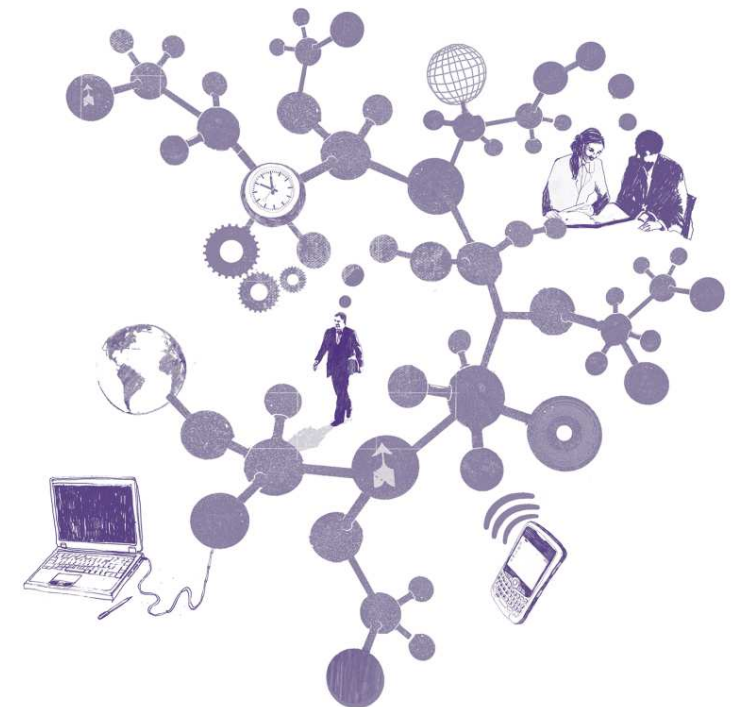
Year ended 31 March 2016

19 September 2016

Mark Stocks
Partner
T 0121 232 5437
E mark.c.stocks@uk.gt.com

Nicola Coombe
Manager
T 0121 232 5206
E nicola.coombe@uk.gt.com

David Roper
Assistant Manager
T 07825 522950
E david.t.roper@uk.gt.com



City of Wolverhampton Council
Civic Centre
St Peter's Square
Wolverhampton
WV1 1SH

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

www.grant-thornton.co.uk

19 September 2016

Dear Members of the Audit & Risk Committee

Audit Findings for City of Wolverhampton Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of City of Wolverhampton Council, the Audit & Risk Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Mark Stocks

Partner

Chartered Accountants

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Purpose of this report

This report highlights the key issues affecting the financial results of the City of Wolverhampton Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2016 and presented to the Audit & Risk Committee on 14 March.

Our audit has taken longer than anticipated and we have made a number of amendments to the financial statements. We will still meet the statutory timetable for completion of the audit and also note that none of the amendments have significantly altered the reported financial resources of the Council.

The Council's finance team have worked constructively with us and have prioritised the audit within the capacity available to them. We note that at times the team has had limited capacity to manage all of the competing demands on its time.

Due to the additional time and resources we have needed to input into the audit we will need to raise an additional fee for our work.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- Receipt of 2 leases
- Receipt of one outstanding investment confirmations
- Receipt of three outstanding LOBO borrowing confirmations
- Receipt of one employee HR file to confirm employee existence
- Receipt of outstanding information to complete our creditors testing
- Update our work to reflect receipt of revised valuation reports from the external valuer and confirmation of price movements in the year in respect of Council dwellings
- Completion of our work in respect of Property Plant and Equipment
- Completion of our work on the consolidation in respect of Wolverhampton Homes Limited
- review of the final version of the financial statements to ensure that all that the expected changes have been made
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of our opinion
- Whole of Government Account.

Key audit and financial reporting issues

Financial statements opinion

We anticipate providing an unqualified audit opinion in respect of the financial statements (see Appendix B).

The audit team and the finance team have identified £13.1m adjustments affecting the Group and Council's financial statements in 2015/16 and £29.0m in the 2014/15 comparatives (details are recorded in section two of this report). These, change are primarily driven by the prior period adjustments, grants, and changes made to Property, Plant and Equipment.

The draft financial statements for the year ended 31 March 2016 recorded net expenditure for the group of £30.7m; the audited financial statements show net expenditure of £17.6m. For the prior year comparatives the draft accounts recorded net expenditure for the group of £151.8m; the audited financial statements show net expenditure of £180.8m.

Of these adjustments only one impacts on the resources available to the Council. This relates to a £2m reduction in school reserves following the incorrect recognition of Dedicated Schools Grant. The overspend against budget of £1.9m was agreed by the Schools Forum, and is to be recouped when the Council receives the DSG in the 2016/17 financial year

The key observations arising from our audit of the Council's financial statements are:

- Amendments; we have made a significant number of adjustments to the financial statements and disclosure notes. These do not impact the level of resources available to the Council
- Finance team capacity; the finance team have limited capacity to manage all of the competing demands on its time
- Accounts preparation; The draft financial statements presented for audit on 30 June were subsequently amended and a revised set of draft financial statements provided to us on 6 July, to take into account two Prior Period Adjustments, which we had discussed with the Finance Team prior to year end. This is discussed further at page 21.
- Property valuations; the Finance Team were delayed in their year end processes through late receipt of valuation reports. This meant they were unable to make the required amendments to the fixed asset register on a timely basis
- Grants; significant reworking of the grants note was required. Additionally, a further prior period adjustment was identified during the course of the audit by both the Finance Team and the audit team in respect of capital grants unapplied
- Fixed asset register; the reports generated from the fixed asset register system produced inconsistent outputs and did not agree with the opening balances brought forward from the 2014-15 financial statements. The Finance Team had to invest significant time manually reconciling any differences arising
- Payroll control accounts; The Council does not routinely undertake a reconciliation of the payroll control accounts from the ledger to payroll systems. We therefore needed to perform our own reconciliation procedures. We have raised a recommendation at Appendix A for the Council to implement a routine reconciliation/review process.

Going forward we recommend that:

- the Council considers the capacity of its finance team
- reviews its financial statements to ensure the accounts are de-cluttered as far as possible
- reviews its final accounts timetable in preparation for the 31 July completion date, and includes a detailed review of the draft accounts in its closedown timetable
- the Finance Team should review the approach and strengthen joint working with colleagues in Corporate Landlord in order to improve the valuation process
- the Council reviews the controls associated with the fixed asset register and payroll
- the Director of Governance reiterates to all Members the importance of keeping their register of interests up to date, not just as an annual process, but in real time as their interests change during the year.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Annual Governance Statement (AGS) does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit. We have not identified any issues with regard to the AGS.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to:

- Payroll reconciliation
- Fixed Asset Register system
- Register of interests

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016.

We have also engaged with the Council to undertake HCA compliance work and are in discussions to certify the Council's Pooled of Capital Receipts return.

We will report the outcome of this, and any other certification work that we undertake, through a separate report to the Audit & Risk Committee which is due in February 2017.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Director of Finance and his finance team.

The finance team and ourselves will be undertaking a de-briefing session as soon as practicable to ensure that we all learn from this first year experience and agree detailed actions for the 2016/17 accounts production and audit, such that we can work together to ensure a more streamlined and efficient process for us all. This is especially important given the tightening deadlines which will be in place in the future: in respect of the 2017/18 financial year, it is required that the audited financial statements will be approved and signed off by the end of July.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the Finance Team and other staff during our audit. Finance Team resources have been stretched, but the team have shown commitment and determination to rectify the problems identified. We look forward to working with them over the coming year.

**Grant Thornton UK LLP
September 2016**

Section 2: Audit findings

- 01. Executive summary
- 02. Audit findings**
- 03. Value for Money
- 04. Other statutory powers and duties
- 05. Fees, non audit services and independence
- 06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that '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'.

As we reported in our audit plan, we determined overall materiality to be £13,359k (being 1.75% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and (have made no changes to our overall materiality).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £667k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level	Findings
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature	Any errors identified by testing in excess of our trivial level of £667k would be deemed to have implications on the users understanding of the financial statements.	We identified no such errors during the course of our work.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing in excess of £10,000 would be deemed to have implications on the users understanding of the financial statements.	We identified no such errors during the course of our work.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing would be deemed to have implications on the users understanding of the financial statements.	We identified two adjustments in respect of auditor's remuneration. One was presentational in nature and did not affect the value of the expenditure shown. The second adjustment is to separately identify additional work carried out and to disclose the amount in relation to certification of grants claims.

Materiality

Balance/transaction/disclosure	Explanation	Materiality level	Findings
<p>Related party transactions</p>	<p>Related party transactions have to be disclosed if they are material to the Council or to the related party</p>	<p>Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Council and the related party</p>	<p>We identified several transposition errors between the working paper and the draft financial statements. These have been corrected.</p> <p>We also identified that the transactions between the Council and Yoo Recruit Limited were not consistent with those shown in the accounts of Yoo Recruit Limited. The Council's accounts have subsequently been updated to reflect the revised transaction values and also now include reference to a loan of £300k made by the Council to Yoo Recruit Limited, which was omitted in error from the draft accounts.</p> <p>From our comparison of Councillor's disclosed interests to those registered with Companies House, we identified that there were four instances of non-disclosure across three Members. This was rectified during the course of the audit, once brought to the attention of the three Councillors by the Director of Governance, and the Councillor's registers of interests on the Council's public-facing website have been updated. However, the importance of keeping an up to date register of interests needs to be reiterated and therefore a recommendation has been made to this end at Appendix A.</p>

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to 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&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at City of Wolverhampton Council, we have determined that the risk of fraud arising from revenue recognition 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 local authorities, including City of Wolverhampton Council Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • Discussed with management the rationale and evidence to support key accounting estimates and judgements • review of accounting estimates, judgements and decisions made by management • Testing of journal entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work • Discussed with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value 	<p>Work in respect of Property, Plant and Equipment is incomplete as at the time of writing.</p> <p>In 2015/16 the Council have had valuations on a number of assets</p> <ul style="list-style-type: none"> • Council dwellings • Assets selected as part of the on-going 5 year revaluation programme • Assets where significant work has been undertaken • Review of assets not valued to ensure the carrying value and current/fair value are not materially different at the balance sheet date <p>The valuations carried out as part of the on-going 5 year revaluation cycle are desk top valuations. Our discussions with the valuer confirmed that desk top valuations are undertaken rather than site visits. As site visits are not undertaken the Council will need to ensure that the valuer is informed of any changes in condition of properties.</p> <p>Changes in accounting standards applying to the 2015-16 financial statements required surplus assets and investment properties to be valued under IFRS 13 Fair Value Measurements. Under the code operational assets are valued at current value. Our initial review of the valuer's reports found that this had not been consistently reflected. With management's agreement we contacted the Council's valuer and discussed the valuation process.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	Continued	Continued	<p>The valuation of Council dwellings was carried out as at 1 April 2015. As a result the Council needed to assess whether there had been any changes to the value of housing dwellings during 2015/16. The Council estimate a movement of £4.1m in the year, therefore assets are understated.</p> <p>This has been treated as an unadjusted misstatement.</p>
4.	<p>Accounting for PFI schemes The Council has three current PFI schemes which we will be auditing for the first time in 2015/16. A new PFI school will also become operational during 2015/16 and will be accounted for on balance sheet. PFI schemes represent a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> • We gained an understanding of the PFI schemes including the contract and operators financial close model • We tested the inputs into the Councils accounting model to ensure they are consistent with the operators model, using the work of our specialist. • We ensured that accounting entries in the financial statements are consistent with the accounting model. 	<p>Our audit work has identified no significant issues in respect of the Councils accounting for the PFI schemes. Our detailed findings can be seen at page 43.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
5.	<p>Group accounts The Council prepares consolidated accounts for Wolverhampton Homes. This will be the first year of our audit of the consolidated accounts.</p> <p>The Council is considering setting up companies in the energy and house building sectors which will need to be considered against the Group standards .</p>	<ul style="list-style-type: none"> We have assured ourselves over the material accuracy of Wolverhampton Homes financial statements as reflected in the group financial statements We have identified the controls put in place by management over the consolidation process. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of misstatement and ensure that all required disclosures are made 	<p>We have recently received information requested from the auditors of Wolverhampton Homes Limited which we are using to provide assurance over the balances used by the Council in the consolidation process. Our review and testing of the consolidation working papers is outstanding at this time.</p>
6.	<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<ul style="list-style-type: none"> We have identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. We have reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out. We have undertaken procedures to confirm the reasonableness of the actuarial assumptions made. We have reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Employee remuneration</p>	<p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Review and testing of employee remuneration liabilities • Reconciliation of total payroll costs to the general ledger • Trend analysis of monthly payroll information • Testing of employee remuneration expenditure • Testing of senior officer emoluments and exit packages 	<p>Our audit work to date has identified one significant issues in relation to the risk identified.</p> <p>The Council do not routinely undertake a reconciliation between the payroll system and the general ledger. We have carried out a reconciliation between the gross to net pay report provided by payroll and the amounts included within the CIES. By using the 'PP' transactions from the ledger we found that for Employers NI and Employers Pensions there were minor differences overall (under £10k). For gross pay there was a difference of £0.8m between the ledger and the payroll system.</p> <p>The Council's payroll department acts as an agent for a number of external organisations and undertakes the payroll function on a monthly basis. The employees of the external organisation are paid via the Councils bank account and the Council are reimbursed in total by the external organisation. During our work on the payroll reconciliation and our testing of income within the CIES we identified that the Council were including the payments made to external employees and the reimbursement within the gross expenditure and gross income of the Council. As the Council is acting as agent, under the Code these entries should be excluded from the CIES. This amounted to £7.6m in 2015/16. Both gross income and expenditure have been reduced within the accounts to reflect the removal of this agency spend.</p> <p>The Council manages the payroll for the West Midlands Pension Fund on an agency basis. We identified that the Council had not raised invoices to the pension fund during 2014/15 or 2015/16 . As a result at 31 March 2016 a total of £4.3m was due to the Council. These balances were correctly included within the Councils debtors balance. We understand that the invoices in respect of this amount have now been raised.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding Performed cut-off testing Tested a sample of creditors balances Tested a sample of operating expenditure transactions 	<p>Our audit work to date has not identified any significant issues in relation to the risk identified</p> <p>Work is incomplete as at the time of writing, due to outstanding evidence in respect of creditors transactions.</p>
Welfare expenditure	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding 	<p>Our audit work to date has not identified any significant issues in relation to the risk identified.</p>

In addition to the work completed against the risks noted above, we also completed work in relation to Business Rates, Council Tax, Cash, Investments, Debt, Grant Revenues and Other Revenues. We identified a number of adjustments in relation to Property Plant and Equipment & Grant Revenues which are listed on the following pages.

Audit findings against property, plant and equipment

In this section we detail our specific findings in relation to our work on the property, plant and equipment non cycle.

Property plant and equipment

Work Completed

We have undertaken the following work in relation to this transaction cycle:

- We obtained the fixed asset register and agreed this to the notes in the financial statements
- We performed sample testing on the movements in property plant and equipment during the year
- Compared the disclosures against the requirements of the Code to ensure compliance

Findings

As part of our audit we agree the opening balances in the property, plant and equipment note to the fixed asset register. We identified that the reports generated from the fixed asset register system produced inconsistent outputs in respect of the opening balances. The closing balance on the 2014/15 report should equal the opening balance on the 2015/16 report (as they both show the balances at 1 April 2015). Our review identified that the reports had different figures for gross book value, brought forward impairment/depreciation and net book values. The difference in the 1 April 2015 value between the 2015/16 report and the 2014/15 report and the accounts was £34m. The Council provided a reconciliation and were able to identify the assets within the report that this related to and were able to confirm that the fixed asset register had not changed. This is an issue in the reporting systems and requires resolution by the Council. The accounts now reflect the correct opening balances.

We identified a further difference between the fixed asset register and closing balances (31 March 2016) for gross book value and accumulated depreciation of £9.8m. The finance team have reconciled the register and the accounts. The gross book value and accumulated depreciation figures in the accounts have been reduced by £9.8m to correct for this error. The Net book value of assets has not changed.

Amendments to the PPE note were also made reflect the changes resulting from valuations between the revaluation reserve and the CIES.

When assets are revalued the cumulative impairment and depreciation should be written back. As part of our review of opening balances we identified that cumulative impairment on a number of assets had not been written back to gross value on valuation. This is a technical accounting entry within the PPE note and does not impact on the net book value of the assets. The Council reviewed the cumulative impairment balances at 31 March 2016 and overall an adjustment of £174m was made within the PPE note.

Disclosure changes

We have made the following disclosure changes:

- In 2015/16 surplus assets and investment properties were required to be valued under IFRS13. This requires significant additional disclosure of the valuation method. These disclosures were not included in the draft financial statements but have subsequently been amended.
- The code requires disclosure of the asset lives which are used in the calculation of depreciation. An enhanced disclosure has been made in the financial statements to ensure that the Council is Code compliant.
- The Code requires a disclosure detailing the effective date of valuations, such that the total re-valued amount is analysed across each of the preceding financial years where a rolling programme of revaluations has been used. This disclosure has not been included in the draft or revised accounts in 2015/16.

Audit findings against Grant Revenues

In this section we detail our specific findings in relation to our work on the Grant Revenues cycle.

Grant Revenues

Work Completed

We have undertaken the following work in relation to this transaction cycle:

- We obtained a schedule of all grants that includes total amount of the grant and the amount deferred, and agreed it to the general ledger
- We performed sample testing of grant revenues
- Compared the disclosures against the requirements of the Code to ensure compliance

Findings

Disclosure

Note 2H – an additional note has been added at 2H to disclose the amounts credited to services in the CIES, credited to taxation and non-specific grants and any liability where grant conditions have not been met. The amount of the grants received which are potentially repayable (until grant conditions have been met) is not disclosed separately. This is not compliant with the CIPFA Code.

Note 8 (previously Note 7) has been adjusted to show the cash received in the year from Central Government. The value has been reduced by £24m. Note that this has no impact on the level of resources available to the Council.

Dedicated Schools Grant

The Council incurred expenditure of £138.7m in 2015/16 in relation to the Dedicated Schools Grant (DSG), the level of grant received was £136.8m. The overspend against budget of £1.9m was agreed by the Schools Forum, and is to be recouped when the Council receives the DSG in the 2016/17 financial year. In the interim the expenditure incurred in excess of the grant (£1.9m) should be charged to school balances.

The accounting treatment approved by the Schools Forum was for the overspend to be within the CIES and a transfer made from the schools earmarked reserves to the general fund. As a result income within the CIES was overstated by £1.9m. However, at 31 March 2016 the Council accounted for the £1.9m within a grant debtor of £4.3m and a grant creditor of £2.4. Both income and school reserves have been reduced by this balance. In addition the creditors and debtor entries in relation to DSG were reviewed and it was identified the only balance sheet entry at 31 March 2016 should be a debtor of £0.7m. Overall in relation to DSG grant creditors were overstated by £2.4m and grant debtors by £3.6m. The accounts have been amended.

This has reduced the resources available to the Council.

Audit findings against Grant Revenues

Grant Revenues continued

Debtors and Creditors

The Council reviewed the debtor and creditor entries and amended a number of grants. Overall grant creditors were reduced by £4.2m and grant debtors were reduced by £5.3m. The majority of this overstatement is due to the incorrect treatment of the Dedicated Schools Grant as explained above. The accounts have been amended.

CIES – Education and Children's services

In the CIES income and expenditure were overstated by £2m in relation to the Universal Infant Free School Meals grant due to an incorrect journal transaction. The accounts have been amended.

CIES – Un-ring fenced Revenue Accounts Receivable

In the CIES the Education Services Grant, 16 - 18 Bursary Fund and Pupil Premium were originally disclosed below the line in Un-ring-fenced Revenue Grants Receivable. These items should be credited to Education and Children's Services as Gross Income. This had the effect of overstating un-ring fenced revenue grants by £17.3m. The accounts have been amended.

Capital Grant Unapplied Account (within usable reserves)

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. Over a number of years the Council had credited all capital grant where conditions had been met (through a transfer from the general fund) to this account and then credited the capital adjustment account for the amount to match capital expenditure that had been incurred. As a result all capital grants were passing through the capital grant unapplied account (where the conditions had been met) whereas those where the conditions were met in year and the expenditure had been incurred should have been treated as a transfer between the general fund and the capital adjustment account. The accounting treatment in 2015/16 has been revised.

Capital Grant Unapplied Account - prior period adjustment

In the draft accounts the year on year movement within the Capital Grant Unapplied Reserves in the draft financial statements was from an opening balance brought forward from 2014-15 of £37.1m to a closing balance in 2015-16 of £2.0m. This is a movement of £35m. This adjustment had been made in the CIES through a reduction in capital grant receivable to £3.6m. This reduction was not consistent with other capital expenditure and financing entries within the accounts, or with the level of capital grant received in year (£36.8m).

Discussions with officers identified that the movement in 2015/16 was due to an overstatement (by £37.1m) of capital grant unapplied at 31 March 2016. This was due to an error in the accounting of capital grant for Schools Standard Fund Capital grant in a prior year. As this is a prior year error a Prior Period Adjustment was required to reduce capital grant unapplied within Usable reserves and to reduce capital grants receipts in advance within current liabilities at 1 April 2014 by £35m. The accounts have been amended to reflect this with capital grants receivable in the CIES amended to £36.8m.

This has not impacted on the resources available to the Council at 31 March 2016

Prior period adjustments

The draft financial statements presented for audit on 30 June were subsequently amended and a revised set of draft financial statements provided to us on 6 July, to take into account two Prior Period Adjustments (PPAs). The PPAs had been identified prior to the year end and were agreed as part of the audit liaison meetings however due to problems caused by the late receipt of valuations these were not actioned in the draft accounts. The Prior Period adjustments resulted in significant movements in the CIES and balance sheet, and the impact is disclosed in note 1 to the accounts. A further prior period adjustment was identified during the course of the audit by both the Finance Team and the audit team in respect of capital grants unapplied.

The overall disclosure was amended from the draft accounts to provide additional disclosure of the impact of the PPA adjustments in line with requirements of IAS1

Issue	Commentary
Council Dwellings	<p>The Council had a full revaluation of its Council dwellings at 1 April 2015 with the previous valuation having taken place at 1 April 2010. The Council had made an adjustment to the carrying value of Council dwellings in 2014/15 in order to take in to account movements in prices and the impact of enhancement expenditure. As a result of the valuation there was a difference of £45.1m between the carrying value of Council dwellings at 31.3.15 and the revaluation date of 1.4.15. Therefore the Council was not able to demonstrate that the carrying value and the current value of council dwellings at 31.3.15 was fairly stated which resulted in the requirement of a PPA.</p> <p>We have reviewed the valuation of Council dwellings as part of our work on Property Plant and Equipment.</p>
REFCUS	<p>As part of the Council's review of the asset register in 2015/16 it was identified that capital expenditure and a loan transaction in total of £15.4m had been added to non-current assets in 2014/15. The correct accounting treatment was for the expenditure to be classified as revenue expenditure funded by capital under statute (REFCUS) and for this expenditure to pass through the CIES and to the capital adjustment account. There is no impact on the general fund as a result of the changes to the 2014/15 comparative figures within the revised accounts.</p>
Capital Grants unapplied	<p>As set out at page 20 both the Finance team and the audit team identified that the balance brought forward at 1 April 2015 of £37.1m was overstated. This was due to the an error in a prior year (2011/12) where the Schools Fund Capital Grant was incorrectly classified between creditors and capital grants unapplied.</p> <p>In subsequent the accounting entries transferring amounts to and from the capital grants unapplied account in the year resulted in the balance being unchanged. In 2015/16 an analysis of the items that should properly make up the capital grants unapplied account identified that the balance was overstated by £33.7m with creditors in 2011/12 being overstated by the same amount.</p> <p>A prior period adjustment was made in the comparative figures in the 2015/16 accounts to correct this with the adjustment being made at the 31 March 2014.</p>

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we 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	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Wolverhampton Homes Ltd	Yes	Targeted	<ul style="list-style-type: none"> Alignment of group accounting policies Adequacy of disclosures within the group financial statements 	<ul style="list-style-type: none"> Specific (targeted) scope procedures to be performed by non GT member firm, RSM We have reviewed the outcome of the audit work carried out by RSM 	We have recently received some responses from the auditors of Wolverhampton Homes Limited in respect of the information we have requested, but are awaiting their consideration of subsequent events. We will also review the Council's consolidation of the financial results of the subsidiary into the group accounts

In addition to the work described above, we have also reviewed the Council's treatment of its other subsidiaries and associates. These are noted overleaf for completeness.

In summary, we considered the Council's assessment of the group boundary and the adequacy of the determination of those entities that are included within Group Accounts in 2015/16. We also reviewed the approach to align the accounting policies, review the consolidation adjustments and assess whether the disclosures within the group financial statements are in accordance with the Code requirements. Our work also considered the adequacy of the specific disclosures for interests that are not incorporated into the group accounts. The table above considers the 'component' identified by the Council to be consolidated into the group accounts.

Group audit scope and risk assessment

The table below documents each of the Council's associates and its treatment within the Council's financial statements, with the exception of Wolverhampton Homes Ltd, which has already been disclosed on the previous page.

Entity	Details	Type	Assurance gained & issues raised
Birmingham Airport Holdings Ltd	The Council is a shareholder in this company	Investment	<p>As at the time the draft accounts were submitted, the finance team were unaware of the update to the valuation of the airport shareholding that had been undertaken by the lead authority, Solihull MBC. Therefore a post-audit adjustments has been made in this regard to increase the valuation of the shares accordingly, by £1.8m.</p> <p>In addition, the disclosure in relation to this investment has been amended from an "unquoted equity investment" to "available-for-sale investment", in accordance with IAS 28, Investments in Associates and Joint Ventures.</p>
i54 Management Company Limited	This is a company limited by shares with the Council and Staffordshire County Council each owning one share each. It oversees the work done by i54 Joint Venture	Joint Venture, but not material, therefore entity not consolidated within the group accounts	We concur with the Council's treatment,. While this meets the definition of Joint Venture, it is not considered to be material and therefore has not been included within the group accounts, other than as a related party disclosure.
i54 Joint Venture	An arrangement developed in partnership with Staffordshire County Council for the development of i54	Jointly Controlled Operation, therefore entity not consolidated within the group accounts	<p>Although termed a 'Joint Venture' it does not in fact constitute a Joint Venture, as defined by IAS28. It is a cost sharing arrangement between the City of Wolverhampton and Staffordshire County Council for the delivery of i54. Income and expenditure contributed and incurred by each Council is reflected in each Council's financial statements.</p> <p>The disclosure in the financial statements has therefore been updated to remove reference to it being a 'joint venture'.</p>

Group audit scope and risk assessment

The table below documents the Council's associate and its treatment within the Council's financial statements, with the exception of Wolverhampton Homes Ltd, which has already been disclosed on the previous page.


Entity	Details	Type	Assurance gained & issues raised
Wolverhampton Grand Theatre (1982) Limited	This is a company limited by guarantee and responsible for running the Grant Theatre. The Council <ul style="list-style-type: none"> • can appoint 2 directors • owns the building from which the Theatre is run at £nil rent • subsidises the running costs of the theatre 	Interest with significant influence. Not material to the group accounts, therefore entity not consolidated within the group accounts	We concur with the Council's treatment.
Wolverhampton Schools Improvement Partnership	This is a company limited by guarantee. Two Council Cabinet members are Directors as well as the Head of Education Service, but only the latter has voting rights	Interest with no significant influence or control, therefore entity not consolidated within the group accounts	We concur with the Council's treatment.
Black Country Consortium Limited	This is a company limited by guarantee. The Council has one director of eight on the Board.	Interest with no significant influence or control, therefore entity not consolidated within the group accounts, therefore not included within the group accounts	We concur with the Council's treatment.
WV One Limited	Although the Council has 3 elected members on the Board, this company is currently in liquidation.	Cost sharing agreement, therefore entity not consolidated within the group accounts	We concur with the Council's treatment
Wolverhampton Business Park	This is an arrangement in partnership between the Council and Bibbeys. At 11%, the Council's interest is not considered to be significant.	Interest with no significant influence or control, therefore entity not consolidated within the group accounts	We concur with the Council's treatment
Wolverhampton Business Solutions Centre	The partnership behind this venture comprises the Council, the University of Wolverhampton and the Black Country Chamber of Commerce. Each partner contributes to the costs of running the centre.	Cost sharing agreement, therefore entity not consolidated within the group accounts	We concur with the Council's treatment

Significant matters discussed with management

	Significant matter	Commentary
1.	Business conditions affecting the Group and business plans and strategies that may affect the risks of material misstatement	We discussed the impact of the results of the European Referendum with the Council and whether this would need to be considered under IAS 10, Events after the Balance Sheet Date. If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity is required to disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<ul style="list-style-type: none"> Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than necessarily the cash flows fixed or determined by the contract. While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Authority's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is an Authority's precept or demand for the year, plus or minus the Authority's share of the surplus/deficit on the Collection Fund for the previous year. The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year. The NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors (excluding police bodies) and the Government. The amount credited to the General Fund under statute is the Authority's estimated share of NDR for the year from the National Non Domestic Rates (NNDR) 1 return. The NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year from the NNDR 3 return. 	<p>We have reviewed the Council's policy against the requirements of the Code and are satisfied that the policy is appropriate and adequate disclosures have been made in the financial statements.</p>	

Assessment


● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient



Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements and estimates</p>	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Equal Pay provision 	<p>We have considered the key estimates and judgements included in the accounts and note the following.</p> <p>A desktop valuation was performed by the Council's valuers to provide assurance that the carrying value as at 31 March 2016 was not materially misstated. As a result of this the carrying value at 31 March 2016 is estimated to be understated in the range of £1.8m to £3.5m. We have raised a recommendation at Appendix A with respect to the valuation process.</p> <p>The valuation of Council dwellings was carried out at 1 April 2015. As a result the Council has assessed whether there have been changes to the value of the housing dwellings during 2015/16. The Council estimate that there has been an increase in value of £4.1m in the year. The Council has not made an amendment for this in the financial statements.</p>	

Assessment

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Director of Finance, s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	
Other accounting policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	

Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Issue	Commentary
<p>Accounting for schools</p> <p>In 2014/15 CIPFA/LASACC updated the 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) to clarify the accounting requirements for local authority maintained schools. This concluded that maintained schools meet the definition of entities controlled by local authorities which should be consolidated in group accounts. However, rather than requiring local authorities to prepare group accounts, the Code requires local authorities to account for maintained schools within their single entity accounts. This includes school income and expenditure as well as assets and liabilities.</p> <p>A key consideration is whether the non-current assets used by the school should be recognised by in the Council's accounts. Authorities are required to form judgements on a case by case basis of the rights and obligations of all parties relating to the use of the buildings and underlying land. This could mean that there may be differing recognition judgements with classes of schools.</p> <p>This change may require disclosures including:</p> <ul style="list-style-type: none"> • the accounting policy on accounting for schools • a prior period adjustment (where this results in a change in how the authority previously accounted for schools) • disclosure of critical judgements. 	<p>We considered the Council's assessment that the accounting system in place, provides for schools income, expenditure, assets and liabilities to be included in the financial records and hence the financial statements.</p> <p>We considered the arrangements that the Council put in place to establish whether for each school, they have captured all the financial information relating to the school as an entity including income, expenditure and assets and liabilities and to eliminate transactions between the Council and schools in preparing aggregated accounts, in so far as these might be material.</p> <p>We concluded the arrangements to be adequate and our audit work has not identified any significant issues.</p> <p>We have reviewed the Council's policy in respect of schools: community, voluntary aided, voluntary controlled and academies. There were no changes to the accounting for schools income and expenditure, or for the assets and liabilities with regard to schools in the draft accounts.</p> <p>The Council has made the judgement that –</p> <ul style="list-style-type: none"> • Community schools are included within the consolidated accounts • Voluntary controlled schools are included within the consolidated accounts • Voluntary aided schools are not included within the consolidated accounts • Academy schools are not included within the consolidated accounts <p>As part of this assessment for a number of voluntary controlled schools the Council has accounted for land which it does not hold title deeds to within non-current assets as the Council has judged that control lies with the Council.</p> <p>As part of the assessment for academy schools the Council has de-recognised the land for academy schools which leased for 125 years as it deemed this to meet the criteria of a finance lease under IAS17. As part of our audit testing we identified that a balance of £2.33m remained on the Councils balance sheet for land associated with academy schools and therefore not in line with the Councils judgement. This is included as an un-adjusted error on page 35.</p> <p>We recommended that the treatment applied be disclosed within the financial statements as part of Critical Judgements.</p>

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
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit & Risk Committee and were not made aware of any matters in relation to fraud. 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
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed in the financial statements, and which are required to be. However, we did identify from our comparison of Councillor's disclosed interests to those registered with Companies House, that there were four instances of non-disclosure across three Members. This was rectified during the course of the audit, once brought to the attention of the three Councillors by the Director of Governance, and the Councillor's registers of interests on the Council's public-facing website have been updated. However, the importance of keeping an up to date register of interests needs to be reiterated and therefore a recommendation has been made to this end at Appendix A.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation request(s) to institutions that the Council banks with, has investments with, and borrowings from. This permission was granted and the requests were sent. To date, four of these confirmations have been received with no issues noted. Four remain outstanding as at the time of writing. We requested management to send letters to Browne Jacobson who worked with the Council during the year in respect of Equal Pay settlements. This response has been received and has not raised any audit concerns.
6.	Disclosures	<ul style="list-style-type: none"> We recommended a number of disclosure amendments to the draft financial statements to improve the presentation and to ensure compliance with the Code. The most significant of these are noted on page 39, Misclassifications and Disclosure Changes.
7.	Matters on which we report by exception	<p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>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 exceeds the specified group reporting threshold we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Note that work is not yet completed and the planned timescale for the work is towards the end of September ahead of the deadline of October 30.</p>

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration , Operating Expenses and Welfare Benefits Expenditure.

The matters that we identified during the course of our audit are set out in the table below. This and other recommendations, together with management responses, are included in the action plan attached at Appendix A.



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



- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

	Assessment	Issue and risk	Recommendations
1.	●	<p>Security administration rights granted to individual with senior management responsibilities</p> <p>The Head of Revenues and Benefits has the ability to administer security within Northgate Sx3. The combination of strategic management duties and security administration is considered a segregation of duties conflict.</p> <p>This condition poses the following risks to the organisation:</p> <ul style="list-style-type: none"> ● Individuals in strategic management positions should not have administration rights within applications as they are potentially in a position to commit a fraudulent action and cover it up. Such individuals do not typically perform these duties as part of their role and therefore do not require this access 	<ul style="list-style-type: none"> ● System administration rights should be removed from the Head of Revenues and Benefits.
2.	●	<p>Shared generic accounts used for Northgate database maintenance</p> <p>Database maintenance and administration is performed through shared, generic accounts. In order to assign personal accountability to accounts with elevated access each account should be assigned to a named individual.</p> <p>This condition poses the following risks to the organisation:</p> <ul style="list-style-type: none"> ● a) Bypass of system-enforced internal control mechanisms through inappropriate use of administrative functionality by (1) making unauthorised changes to system configuration parameters, (2) creation of unauthorised accounts, (3) making unauthorised updates to their own account's privileges, or (4) deletion of audit logs or disabling logging mechanisms. ● b) Internal access to information assets and administrative functionality may not be restricted on the basis of legitimate business need. 	<ul style="list-style-type: none"> ● All interactive security administrator accounts should be aligned with one named individual.


Internal controls

	Assessment	Issue and risk	Recommendations
3.		<p>Proactive reviews of logical access within Agresso and Active Directory</p> <p>User accounts and associated permissions within Agresso and Active Directory are not formally, proactively reviewed for appropriateness.</p> <p>This condition poses the following risks to the organisation:</p> <ul style="list-style-type: none"> • Gaps in user administration processes and controls may not be identified and dealt with in a timely manner. • Access to information resources and system functionality may not be restricted on the basis of legitimate business need. • Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls. • No-longer-needed permissions granted to end-users may lead to segregation of duties conflicts. • Access privileges may become disproportionate with respect to end users' job duties. 	<ul style="list-style-type: none"> • It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Agresso and Active Directory. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).
4.		<p>Automated alerts, documented resolution, and proper reconciliation of job processing anomalies</p> <p>Automated alerts / notifications are not sent in the event of errors in automated system tasks that are required for the effective operation of systems. IT currently relies on the end-user to identify any processing errors. When such errors occur, no documented resolution takes place. Finally, there is no formal review of jobs performed against jobs scheduled.</p> <p>This condition poses the following risks to the organisation:</p> <ul style="list-style-type: none"> • Authorised batch programs are not executed in accordance with management's expectations. • Unauthorised batch programs are executed. • Batch programs and files are processed out-of-sequence resulting in erroneous processing. • Batch programs do not process to normal end. 	<ul style="list-style-type: none"> • IT should configure automated alerts on such anomalies in order to proactively identify and resolve processing errors. Upon receiving these alerts, IT should create a ticket and document the steps taken to resolve such errors. On a set frequency, management should then perform a review of scheduled jobs in comparison to jobs performed in order to verify that all jobs were properly executed.

Internal controls

	Assessment	Issue and risk	Recommendations
5.		<p>Reviews of Information Security logs created by Northgate Sx3, Agresso and Active Directory</p> <p>Logs of information security activity within Northgate Sx3, Agresso and Active Directory are not formally, proactively, and routinely reviewed.</p> <p>This condition poses the following risks to the organisation:</p> <ul style="list-style-type: none"> Without formal, proactive, and routine reviews of security event logs, inappropriate and anomalous security activity (e.g., repeated invalid login attempts, activity violating information security policies) may not identified and/or addressed in a timely manner. 	<ul style="list-style-type: none"> Given the criticality of data accessible through Northgate Sx3, Agresso and Active Directory, logs of information security events (i.e., login activity, unauthorised access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.
6.		<p>Lack of management and employee reviews of Information Security policies and procedures</p> <p>It is generally recommended that policies governing IT controls should be reviewed at least once annually for accuracy and completeness. Due to a relatively stagnant IT environment, the existing IT security policy has not been formally reviewed or updated since 12/04/2013.</p> <p>Additionally, it was noted that existing employees are not required to periodically formally acknowledge that they have read, understand, and will abide by the organisation's information security policy requirements.</p> <p>This condition poses the following risks to the organisation:</p> <ul style="list-style-type: none"> Security administration processes and control requirements may not be formalised, understood by, or communicated to those within the organisation responsible for observing and/or implementing them. Effectiveness of security administration processes and controls may be diminished due to environmental and/or operational changes. 	<ul style="list-style-type: none"> Information security policies and procedures should be reviewed at planned intervals or when significant changes occur to ensure their continuing suitability, adequacy, and effectiveness. Management should also introduce a process whereby employees are required to periodically (at least annually) formally acknowledge that they have read, understand, and will abide by requirements outlined in the organisation's information security policies. Documentation of these acknowledgements should be retained on file for future reference.

Internal controls

	Assessment	Issue and risk	Recommendations
7.		<p>Payroll reconciliation</p> <p>There is no reconciliation process between the payroll system and the general ledger.</p> <p>We have carried out a reconciliation between the gross to net pay report provided by payroll and the amounts included in note 10.</p> <p>By using the 'PP' transactions from the ledger we found that for Employers NI and Employers Pensions there were minor differences overall (under £10k). For gross pay there was a difference of £0.8m between the ledger and the payroll system.</p>	<ul style="list-style-type: none"> While we are satisfied that the difference we identified is not material we recommend to the Council that a procedure is implemented to ensure that a reconciliation is performed between the payroll system and the general ledger as part their monthly reconciliation processes.

Un-adjusted misstatements

The table below provides details of adjustments identified during the 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	Balance Sheet £'000	Reason for not adjusting
1 A desktop valuation was performed by the Council's valuers to provide assurance that the carrying value as at 31 March 2016 was not materially misstated. As a result of this the carrying value at 31 March 2016 is estimated to be understated in the range of £1.8m to £3.5m.		3,475	
2 The valuation of Council dwellings was carried out at 1 April 2015. As a result the Council has assessed whether there have been changes to the value of the housing dwellings during 2015/16. The Council estimate that there has been an increase in value of £4.1m in the year.		4,100	
3 All of the PFI liability within the balance sheet is shown as a non-current liability. Part of the liability should be included within current liabilities.		(1,900)	
4 Highfield and Penn Fields schools PFI – the Council's PFI liability is £1.78m lower than our audit estimate.		1,800	
5 The Councils accounting policy is to de-recognise the land for academy school. The land for a small number of academy schools remains within other land and buildings.		(2,300)	
Overall impact	Nil	£7,075	

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements 2014/15 comparatives

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Prior year Comprehensive Income and Expenditure Statement £'000	Prior year Balance Sheet £'000	Prior year Impact on total net expenditure £'000
1 Change to the draft accounts to account for the Council Dwelling valuation at 31.3.15 and to account for the prior period adjustment and impairment (see page 21). Of the adjustment of £45.1m, an amount of £32.2m related to prior to 1 April 2014.	12,900	(45,100)	12,900
2 Change to the draft accounts identified by the Council to account for the identified prior period adjustment in respect of REFCUS.	15,400	(15,400)	15,400
3 Prior period adjustment to reduce capital grants unapplied account at 1 April 2014 Cr Creditors Dr capital grants unapplied	700	(33,300)	700
Overall impact	£29,000	£93,800 net assets	£29,000

Adjusted misstatements 2015/16

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
Change to the draft accounts to account for the Council Dwelling valuation at 31.3.16 (see page 21). This was not included in the draft financial statements. Of the adjustment of £45.1m, an amount of £33.3m related to prior to 1 April 2014 see previous slide		(45,100)	(45,100)
Revaluation adjustment on 2015/16 capital expenditure on council dwellings. Adjustment identified by the Council	33,700	(33,700)	33,700
Change to the draft accounts identified by the Council to account for the identified prior period adjustment in respect of REFCUS, not accounted for in prior year in draft accounts.	(15,400)		15,400
Prior period adjustment to reduce capital grants unapplied account at 1 April 2014, not accounted for as prior period adjustment in draft accounts.	(33,300)		(33,300)
Changes identified in the draft accounts by the Council to reclassify income			
- Central services to the public	6,100		6,100
- interest receivable,	(1,500)		(1,500)
- other investment income and	(4,600)		(4,600)
Income and expenditure in relation to investment properties	(3,900)		(3,900)
Movement in gain/loss on revaluation of net current assets identified by the Council	4,300		4,300

Adjusted misstatements 2015/16

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
Movement on surplus/deficit on revaluation of available for sale financial assets, to account for the increase in the shareholding in Birmingham Airport Holdings Ltd	(1,800)	1,800	(1,800)
CIES Central services to the public. Remove income and expenditure in relation to agency payroll	(7,600) 7,600		
Education and Children services dedicated school grant, income and debtor included in relation to the overspend in error.	1,875	(1,875)	1,875
Education and Children services universal infant free school meals grant double counted in expenditure and income	(2,000) 2,000		
Un-ringfenced revenue grants receivable overstated due to inclusion of 16-18 Bursary and Pupil premium grants which should be included in Education and children services income	(17,300) 17,300		
Debtors and creditors overstated due to the accounting of grant income		(4,300) 4,300	
Accumulated absences accrual was understated by £1.373m in the draft financial statements	1,373	(1,373)	1,373
Overall impact	£13,152	£80,248	£13,152

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit and whether or not they have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements	Amended in the financial statements
1 Disclosure	-	On the balance sheet the reserves of the subsidiary are shown as usable reserves while in the MiRS they are shown in a separate column and added to the total reserves of the Council.	None – disclosure only	Yes
2 Disclosure	-	Additional narrative included within Note 1C Pooled Budgets, given the significant of the Better Care Fund	None – disclosure only	Yes
3 Disclosure	£19	Auditors remuneration: 2014/15 audit fee moved form Grant Thornton line to PwC line	None – disclosure only	Yes
4 Disclosure	£66,800	No Academy Recouped figure was included in the draft financial statements in respect of Dedicated Schools grant.	None – disclosure only	Yes
5 Disclosure	-	Post Balance Sheet Event note updated to disclose the impact of any academies that have converted after 1 April 2016 up to the date that the accounts are signed.	None – disclosure only	Yes

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit and whether or not they have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements	Amended in the financial statements
6 Disclosure	-	Pensions disclosures amended to show all entries from the single entity and group accounts perspective. Narrative added to disclose the impact of the pension deficit on the Council's cash flow. Narrative disclosure added that a number of employees on NHS pensions transferred to the Council.	None – disclosure only	Yes
7 Disclosure	-	Cash flow statement	Additional notes added to further explain material lines on the cash flow statement. Adjustment made to the cash flow disclosures to remove capital creditors and correction of interest. Amendment made to disclosures required by the code for interest paid and received and dividend received within net cash flows from operating activities.	Yes

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit and whether or not they have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements	Amended in the financial statements
8	-	Financial instruments note reworked.	None – disclosure only	Yes
9	-	Segmental reporting note is not split over the headings reported by the Council in the format in the Code. The note in the draft accounts did not separately disclose government grants and contributions £405.7m and employee expenses £256.1m. This has been amended.	None – disclosure only	No
10	-	Opening and closing balances within the Collection Fund analysed to show how the balance is allocated between the Council and other relevant parties.	None – disclosure only	Yes
11	-	Earmarked reserves disclosure was amended to disclose the value of transfers in and out separately. Comparative figures were also added	None – disclosure only	Yes
12	-	The Housing Revenue Account required amendments in order to reflect PPA in relation to Council dwellings and to ensure the value and format could be agreed to the CIES	None – disclosure only	Yes

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit and whether or not they have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements	Amended in the financial statements
13	Disclosure	-	Additional disclosure of assets de-recognised in relation to academy schools	None disclosure only	Yes
14	Disclosure	-	Various	A number of amendments were made to improve the referencing, terminology and general appearance of the accounts	Yes

PFI scheme disclosures

The Council has 4 PFI schemes covering a leisure centre, schools and a waste incinerator which are disclosed in the financial statements. The operators financial close and accounting models for PFI schemes are highly complex and produce accounting estimates for disclosures within the accounts. The unitary charge levied by the PFI supplier contains various elements including cost of services, additions of new equipment, energy and contract inflation which needs to be apportioned by use in the financial model. The application of the model in apportioning these costs is reported in the Council's accounts.

The accounting model requires judgements to be made in a number of areas by the Council. We have assessed the inputs from the Operator's models to produce an audit estimate for each disclosure within the financial statements. We then compare this with the Council's figures for its accounting estimate. Where the difference between the Council's and the audit accounting estimate falls within our trivial range (£0 to £667k) we are not required to report this. Where the Council's accounting estimate falls outside of this range this is reported below.

Issue	Commentary	Recommendations
<p>Disclosures</p>	<p>Balance sheet</p> <p>Balance sheet liability –</p> <ul style="list-style-type: none"> Highfield and Penn Fields schools – the Council's liability is £1.78m lower than the audit estimate. Waste disposal facility – no issues to report on the overall liability: however £1.127m should be classified as a current liability rather than a non-current liability as it falls due within 12 months from the balance sheet date St Matthias and Heath Park – no issues to report on the overall liability: however £0.789m should be classified as a current liability rather than a non-current liability, as it falls due within 12 months from the balance sheet date <p>Comprehensive income and expenditure account</p> <p>Entries within the statement of comprehensive income & expenditure account in relation to service charges, interest and the impact of RPI fall within our range of estimates, therefore no issues identified.</p> <p>Disclosures</p> <p>The Code requires a number of disclosures in relation to the future commitments of the PFI schemes.</p> <p>Future payments for services</p> <p>St Matthias and Heath Park academy total future service costs amended from £197.4m to £58.9m to reflect the Council's accounting model. The amended figures are in line with the audit estimate.</p> <p>For Bentley Bridge the total future service costs disclosed have been amended from £8.5m to £12.5m to reflect a change in the Council's accounting model to build in the impact of indexation on the unitary payment. The revised amended figures are different from the audit estimate in the range of £0.8m higher to £1.2m lower on the individual periods disclosed within the note. In total for Bentley Bridge the disclosure is £3.9m lower than the audit estimate.</p>	<p>Amendments have been discussed with the Council for the differences identified against our range of estimates for the PFI scheme.</p> <p>Differences in each line of the disclosures have been detailed within the Commentary box. The total future payments disclosed for all PFI schemes are in line with the audit estimates. The differences are due to the way in which the indexation is allocated within the accounting models</p> <p>The Council have determined not to amend the financial statements in this regard.</p> <p>We have accepted the Council's estimate, as the degree of variation is not material, given the nature of the schemes and the basis of the estimate.</p>

PFI scheme disclosures continued

Issue	Commentary	Recommendations
<p>Disclosures</p>	<p>Future interest costs</p> <p>For Bentley Bridge the total interest costs disclosed have been amended from £11.8m to £18.2m to reflect a change in the Councils accounting model to build in the impact of indexation on the unitary payment. The revised amended figures are different from the audit estimate in the range of £1.3m higher to £0.6m lower on the individual periods disclosed within the note. In total for Bentley Bridge the disclosure is £4.1m higher than the audit estimate.</p> <p>Repayment of liability</p> <p>The amounts disclosed are different from the audit estimate in the range of £1.5m higher to £0.7m lower on the individual periods disclosed within the note. The total liability disclosed is within the audit estimate range.</p> <p>Total unitary payments</p> <p>For St Matthias and Heath Park total future payments have been amended from £292m to £153.5m to reflect the Councils accounting model. The amended figures are in line with the audit estimate.</p> <p>For Bentley Bridge the total future unitary payments disclosed have been amended from £29.6m to £39m to reflect a change in the Councils accounting model to build in the impact of indexation on the unitary payment. The amended figures are in line with the audit estimate.</p> <p>The Council does not update its accounting models on an annual basis to reflect the actual unitary payment made and the impact of actual RPI. If the Councils models enable this to be done it would be good practice to model the impact on the future committed payments.</p> <p>The Code does not state whether the details should specify an estimate of the cash amount that will actually be paid or an estimate based on prices at the Balance Sheet date. Council's are therefore free to choose which (or both) will be more informative. The Council has improved its disclosure to state that the future payments disclosures are based on the RPI built into the operators financial close model, this disclosure could be improved to disclose the impact if actual RPI differs from this.</p>	<p>As per previous page.</p>

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in and identified the following significant risks, which we communicated to you in our Audit Committee Update, dated July 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03, as follows:

- Medium Term Financial Resilience
- Schools effectiveness and attainment
- Adult and Children's Social Care
- Strategic Asset Management

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- What arrangements the Council has in place for identifying, agreeing and monitoring its forward sustainability and operational plans, and communicating key findings to the Cabinet and Audit Committee.
- What plans are being put in place by the Director of Education and his team to improve the performance of the schools during the year and for continuing to improve the levels of educational achievement for the City's young people going forward.
- What actions are being undertaken within Adult and Children's Social Care to address overspends in Older People and Disability & Mental Health, and to control the numbers of Looked After Children
- What actions have been taken against the risks identified in the 2014-15 Annual Governance Statement in respect of Strategic Asset Management, and whether they are embedded and have been effective.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Key findings

We set out below, and on the following pages, our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Medium Term financial resilience The Council has historically managed its finances well, achieving financial targets and is on course to underspend against its 2015/16 budget. Nevertheless, the scale and pace of change for local government will affect future projections, particularly following announcements from the Comprehensive Spending Review, Autumn Statement 2015 and then more recently the provisional Local Government Finance Settlement 2016/17 published in December 2015.</p>	<p>We reviewed the Council's arrangements for identifying, agreeing and monitoring its financial sustainability and operational plans, and for communicating key findings to the Cabinet and Audit and Risk Committee. We reviewed the Council's updated medium term financial plan and monthly financial monitoring reports and assessed the assumptions used. We:</p> <ul style="list-style-type: none"> • reviewed reporting of in-year financial position and forecast outturn. • considered progress made with 2016/17 financial plans and assessed the key assumptions included in it. • Identified progress with developing a deliverable medium term financial plan 	<p>The performance of the Council is reported on a quarterly basis either to the Cabinet – Performance Committee, or Cabinet – Resources Committee as appropriate. These papers are made available to all members as well as the public, as they are published on the Council's management information system.</p> <p>The revenue outturn position for 2015/16 is a net underspend of £9.4 million against the net budget requirement of £224.9 million. This includes a significant overachievement within the Children and Young People service of £3.4 million due to transformation work leading to early achievement of budget proposals. This is offset by an underspend of £2.2 million within the Disability & Mental Health service.</p> <p>Meeting with key officers and review of the 2016/17 budget has established that the Council has firm plans in place for 2016/17 and 2017/18 budgets and are also considering 2018/19 and 2019/20. This includes holding "Review, Challenge and Progress" to ensure people are challenged on their plans appropriately to ensure they hold up to scrutiny and are robust. Services are being encouraged to think widely about initiatives in the areas of finance, commerciality, digital transformation, assets, structures, working with the Combined Authority, Understanding of Risk, and Future Thinking. This encompasses: "What does 'good' look like in your service and how can this be achieved going forward? How can you work more collaboratively – internally and externally?" Services are being encouraged to "use this opportunity to think innovatively, creatively and explore all opportunities and ideas for future delivery."</p> <p>For each budget year the Council publish short reports on each savings proposal on its website. The most recent round of savings for 16-17 were published in October 2015 and are split between Savings, Redesign and Income generation proposals, and Financial Transactions and Base Budget Revisions. This contains 43 separate proposals for savings with any finance and human resources implications detailed as necessary. There will be a similar publication in October for the proposals taken to Cabinet in July 2016. £21.9 million of budget reduction and income targets have been identified for 2017/18. A further £0.3 million has yet to be identified.</p> <p>The Council sought an LGA Finance Peer Review during the year, which is a process through which the peers use their experience and knowledge of local government to reflect on the work of the Council and provide feedback as critical friends. The review process considered Financial leadership, financial strategy, planning and forecasting, decision-making, financial outcomes and partnership & innovation. The review concluded in its feedback presentation that "The Council has made major progress in its aim to achieve financial stability. There is strong leadership, prudent financial management and clear evidence of innovation. It is now timely to reflect on and refine the Financial Strategy so it further enables and supports the delivery of the ambitions of the City."</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Schools effectiveness and attainment The OFSTED focus school inspection (June 2014) stated what the regulator considered to be "unacceptable inspection outcomes" in that "Wolverhampton continues to have a higher proportion of pupils educated in schools that are not good than both the regional and national averages."</p> <p>At the time of the report, from the thirteen schools inspected, seven were graded good; five required improvement and one was judged to require special measures. There has been improvement from this position: it was reported to Audit and Risk Committee in March 2016 that eight schools were underperforming and 13 required improvement.</p>	<p>We reviewed the plans put in place by the Director of Education and his team to improve the performance of the schools during the year. We assessed evidence of the Council meeting the improvement targets that it has set itself. We reviewed the Council's plans for continuing to improve the levels of educational achievement for the City's young people.</p>	<p>In 2014 OFSTED focus schools inspection reported that the Council had "unacceptable inspection outcomes" and that there were a "higher proportion of pupils educated in schools that are not good than both the regional and national averages." Of 13 schools inspected, 7 were good, 5 required improvement and 1 was special measures. This equates to 54% being rated as good. At the time 63% of schools were judged to be good or better (primary and secondary combined).</p> <p>There has been significant improvement from this position in the last two years with 81% of primary and secondary schools now judged to be good or outstanding by OFSTED placing the City in line with national figures.</p> <p>The School Standards Annual Report 2015 explains the journey of improvement that the city's schools have been on over the past 2 years since the 2014 OFSTED inspection. The Council has set themselves a variety of targets; some stretch, some aspirational (such as 90% of schools to be good or better by September 2017). The Council report in their School Standards Annual Report that they remain substantially below the national average on the percentage of primary schools rated as good, (74% compared to 85% nationally). This has now increased further to 81% of primary schools and 82% of secondary schools at September 2016.</p> <p>The School Standards Corporate Plan objective for 2016 is to: "Challenge and support schools to provide the best education for children and young people". This is planned to be achieved through:</p> <ul style="list-style-type: none"> • Maintaining and building upon the effective working relationships with schools to facilitate the development of strong, local school to school support networks through a systems leadership and partnership working approach that involves all relevant stakeholders in the school improvement work across the City. • Implementing a robust and effective challenge and support programme to all schools across the City through a staged and differentiated approach based on a school's individual position, in order to hold them fully to account for school improvement. <p>81% of all schools (primary, secondary & special) are now considered to be good or better, as reported by Internal Audit as part of their review on the School Improvement and Governance Strategy, which was given "substantial assurance".</p> <p>The School Improvement Strategy notes that educational standards across the City are improving, as can be evidenced by Wolverhampton's movement within the league tables. However, this trend needs to be built upon to ensure continued trajectory of improvement and to improve the life chances of children in Wolverhampton. For example, figures released in August 2016 show that 58% of Wolverhampton students gained five or more A* to C- grades at GCSE, which places the City above National and Key Stage 2 figures</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Adults and Children’s social care The revenue budget monitoring reports during the year noted predicted overspends of £1.7 million across Older People budgets and £1.4 million on Disability & Mental Health. As at the year-end Older People budgets were underspent by £63k due to receipt of Better Care Fund monies of £1.9m from the CCG, and the Disability & Mental Health budget was overspent by £2.2 million. The Children & Young People Directorate, were predicting an underspend of £1.2 million as at March 2016. As at the year-end this underspend has now increased to £3.4 million. As at the time of our planning discussions, the number of Looked After Children was 676 against a target of 540. This has reduced since our initial discussions to 654, as reported in the quarter four performance indicators in the Corporate Performance Report.</p>	<p>We reviewed the outturn in Adult’s Social Care to understand the reasons for any continued overspends. We reviewed the actions that are being undertaken to control the level of overspend for future years as well as progress in addressing the red rated areas of performance in the Corporate Performance reports. We reviewed the actions being taken by the Council to control the numbers of Looked After Children.</p>	<p>Since we identified the financial risks in social care the Council has taken a number of actions to strengthen financial control. Revenue outturn for 2015/16 for Disability & Mental Health and Older People are £2.2 million overspent and £63k underspent respectively.</p> <p>In particular:</p> <ul style="list-style-type: none"> • Older People and Personalisation have been in receipt of £1.9 million from the CCG in respect of the Better Care Fund, due to the risk sharing agreement that is in place with Wolverhampton CCG . • Revenue outturn for 2015/16 in Children’s and Young People was an underspend of £3.3m due to early achievement of budget reduction proposals as a result of the transformation work that has been undertaken. <p>Savings within the Children’s directorate have been realised through undertaking a systematic review of its processes to identify how looked after children come into the system and what can be done to proactively intervene upstream to assist and offer help to the children and their families earlier.</p> <p>For 2016/17, overspends are predicted within Older People and Disability and Mental Health of £1.0m and £1,5m respectively. These are anticipated to be offset by underspends from elsewhere across the Council. Children & Young People continue to perform well financially. The directorate is forecasting an underspend of £2.0 million, primarily as a result of Looked After Children (£1.6 million underspend predicted) and a delay in recruiting to new posts within the Early Intervention Service (£200,000).</p> <p>Budget holders are encouraged to monitor their budgets as a whole and not isolate savings. Budgets are reduced to reflect savings at a cost centre level from 1 April each financial year to ensure that they are embedded in budget monitoring. However, for those savings which are considered to be more challenging, like those within Adults, there are more detailed processes in place to monitor progress, eg transformation reports to the Adult Social Care Savings Board. In respect of Adult Disability, to assist with tracking the impact of targeting savings, a Care Costs Planning and Forecasting Tool has been created which uses real time care and support data, to create real time budget forecasts. The effect of changes in activity can therefore more easily be determined. The forecast tool for 2016/17 has been populated with the projected changes that would be delivered by planned changes to activity. If these projects deliver as planned the savings achieved during 2016/17 are projected to be £749k with the full year effect of these savings projected to be £971k. The MTFS target for 2016/17 is £971k.</p> <p>Work is ongoing in this area to control the expenditure but arrangements to plan and monitor savings and budgets appear satisfactory.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Strategic Asset Management The Council's 2014/15 Annual Governance Statement noted that following the transfer of Corporate Landlord to City Assets within the Place Directorate in January 2015 the opportunity was being taken to further evaluate many of the management, operational and governance arrangements put in place when the Corporate Landlord model was first established. This process was intended to further embed the Strategic Asset Management function and was intended to ultimately establish a Strategic Asset Management Plan.</p>	<p>We reviewed the action taken against the risks identified in the prior year's AGS with regard to asset management.</p>	<p>The Annual Governance Statement for 2015-16 notes that management, operational and governance arrangements are all being further evaluated. The Strategic Asset Plan is currently under development and is the key focus for the recently established assets team, for which a detailed structure is proposed to be developed with external advisors. However, this is likely to develop further to respond to outcomes of the service reviews.</p> <p>There are a number of service reviews being conducted, as referred to in the 2015-16 Annual Governance Statement, to ensure that the new service delivery is relevant and effective in supporting the Council's priorities and objectives. These service reviews are underway and due to be completed in year. The customer service review and report by business analyst of Projects and Works are nearing completion, although the latter will continue into the autumn as processes are improved.</p> <p>The customer service reviews of Assets and Facilities are programmed for autumn this year as well as a review into Workflow Management for all incoming work requests.</p> <p>We have established that the service development plan is being embedded, but further development of Asset Management is needed to ensure it has a longer term outlook. An early draft of the plan was obtained, but we noted that it will continue to be under review, to ensure it remains strategically as well as operationally focussed. Additionally, it will be informed by the customer-led and operational service reviews, as mentioned above, as well as being complemented by a piece of work being done in conjunction with CIPFA.</p> <p>The Council have enlisted the help of a consultant to help them develop a route map for the development of the Strategic Asset Plan. This is providing the Council with some areas of strategic and policy focus. In addition, the Council is also considering the findings from CIPFA's review of their Corporate Landlord model. The CIPFA report notes that "In general we support the direction the Council is moving towards and the comments within this report should therefore be set against this overall positive change process." They further note that the Council is already aware of a number of the issues that CIPFA raised and is already in the process of addressing them.</p> <p>While a "Strategic Asset Plan" document is not in place, the existence of a Corporate Landlord model (as well as the investment being made in the city's assets, eg i10, i11, and Civic Centre) demonstrates the Council's direction of travel in seeking to improve the coordination of property asset management activity in support of the Council's services and corporate objectives. There is a Corporate Landlord Board, which meets on a monthly basis, the purpose of which is to provide consistent leadership and governance to the management of the Council's land and property portfolio meeting. The Council are already in the process of revising the Board's terms of reference (which is in line with CIPFA's recommendations).</p> <p>Clearly, further work is needed in this area but the arrangements appear satisfactory.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties**
- 05. Fees, non audit services and independence
- 06. Communication of audit matters

Other statutory powers and duties

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

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none"> We have not identified any matters that would require a public interest report to be issued
2.	Written recommendations	<ul style="list-style-type: none"> We have not made any written recommendations that the Group is required to respond to publicly
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none"> We have not used this duty
4.	Issue of an advisory notice	<ul style="list-style-type: none"> We have not used this duty
5.	Application for judicial review	<ul style="list-style-type: none"> We have not used this duty

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	189,428	TBC
Grant certification	19,128	19,128
Total audit fees (excluding VAT)	208,556	208,556

Due to the additional work involved in completing the audit an additional fee for the year is proposed. This will be discussed with Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit services	
HCA 2015-16 Compliance audit CASSH Scheme	2,115
Cost Assurance (relating to 2015-16 audit year)	49,995
Income generation (relating to 2016-17 financial year)	70,000
We are also in discussion with client officers with respect to the certification of the Pooling of Capital Receipts Return	TBC

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.a.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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 communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
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		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	System administration rights should be removed from the Head of Revenues and Benefits.	Low		
2	All interactive security administrator accounts should be aligned with one named individual.	Low		
3	It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Agresso and Active Directory. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).	Low		

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	IT should configure automated alerts on such anomalies in order to proactively identify and resolve processing errors. Upon receiving these alerts, IT should create a ticket and document the steps taken to resolve such errors. On a set frequency, management should then perform a review of scheduled jobs in comparison to jobs performed in order to verify that all jobs were properly executed.	Low		
5	Given the criticality of data accessible through Northgate Sx3, Agresso and Active Directory, logs of information security events (i.e., login activity, unauthorised access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.	Low		

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
6	Information security policies and procedures should be reviewed at planned intervals or when significant changes occur to ensure their continuing suitability, adequacy, and effectiveness. Management should also introduce a process whereby employees are required to periodically (at least annually) formally acknowledge that they have read, understand, and will abide by requirements outlined in the organisation's information security policies. Documentation of these acknowledgements should be retained on file for future reference.	Low		
7	We recommend to the Council that a procedure is implemented to ensure that a reconciliation is performed between the payroll system and the general ledger as part their monthly reconciliation processes.	Medium		

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
8	<p>Where the Council acts as a payroll agent for other organisations.</p> <p>For the West Midlands Pension Fund we recommend that all relevant invoices are raised, such that the Council can recoup the money it has incurred on behalf of the pension fund.</p> <p>Secondly, we recommend the Council discuss with the other organisations an alternative arrangements for paying the employees from the external organisations bank account to avoid having to recharge sums between the two organisations.</p>	Medium		
9	<p>We recommend that the Council investigate the reporting function of its fixed asset register system to solve the issues that have led to the reconciling differences between the register and the general ledger this year.</p>	Medium		

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
10	We recommend that the Finance Team seek a greater involvement in the valuation process such that they become the driving force behind what valuations are undertaken and by when.	Medium		
11	We recommend that the Director of Governance reiterate to all Members the importance of keeping their register of interests up to date, not just as an annual process, but in real time as their interests change during the year.	Medium		

Appendix B: Audit opinion

We anticipate we will provide the Group/Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CITY OF WOLVERHAMPTON COUNCIL

We have audited the financial statements of the City of Wolverhampton Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. . 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the [Chief Financial Officer] 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, the Group Narrative Report, [and] the Annual Governance Statement to identify

material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement is consistent with the Group audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if :

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure 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.

We are required under Section 20(1)(c) of the Act 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.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code 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 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

[Signature]

Mark C Stocks
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
Colmore Circus
Birmingham
B4 6AT

[Date] 2016



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