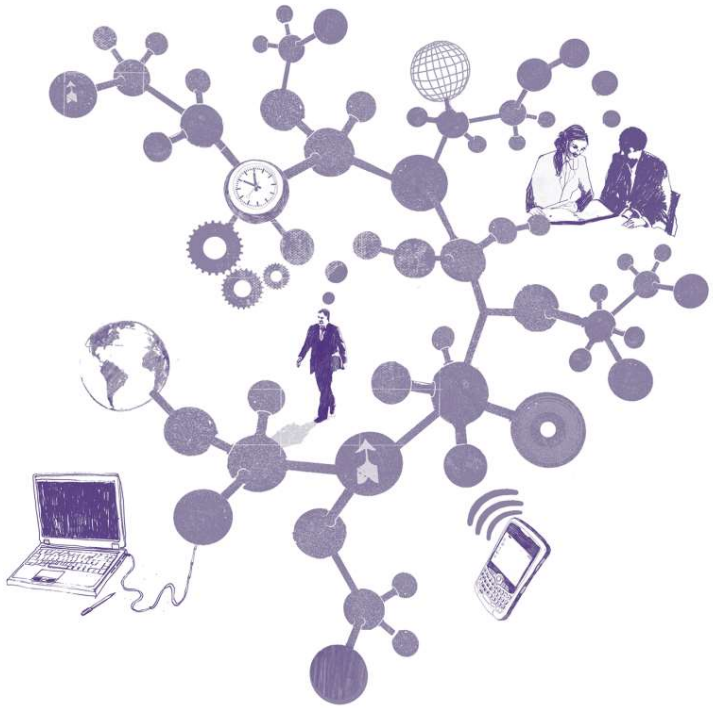
The Annual Audit Letter for City of Wolverhampton Council

Year ended 31 March 2016

October 2016



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at City of Wolverhampton Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Risk Committee as those charged with governance in our Audit Findings Report on 19 September 2016, with a final version provided to Councillor Craig Collingswood as Chair of the Audit and Risk Committee on 27 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 29 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

Whole of government accounts

We completed work on the Council/Authority's consolidation return following guidance issued by the NAO and issued an unqualified report on 20 October 2016

Certificate

Now that the Whole of government accounts work is complete we will issue our certificate to certify that we have completed the audit of the accounts of the City of Wolverhampton Council in accordance with the requirements of the Code.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We have also engaged with the Council to undertake HCA compliance work and are in discussions to certify the Council's Pooling of Capital Receipts return.

We will report the results of this work to the Audit and Risk Committee in our Annual Certification Letter.

Other work completed
We have been appointed by the Council to act as an independent reviewer on income generation. This is based on our established knowledge transfer method whereby we have provided critical challenge and support to date and during the course of the project. This work is currently underway.

We have provided training to the Council's Audit and Risk Committee in conjunction with the Head of Internal Audit. Further, we are facilitating an interactive training session in November in partnership with the Council, with the aim of delivering training and a networking opportunity to Audit Committee members from across the Midlands.

Working with the Council

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. We look forward to working with them over the coming year.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £13.359m, which is 1.75% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as cash and cash equivalents, disclosures of officers' remuneration, disclosure of auditors' remuneration, and related party transactions.

We set a lower threshold of £667k, above which we reported errors to the Audit and Risk Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	As part of our audit work we considered the risk factors set out in ISA240 and the nature of the revenue streams at City of Wolverhampton Council and we determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; 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. We did not identify any issues to report in relation to this risk
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	As part of our audit work we have: • 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 We did not identify any issues to report in relation to this risk
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.	As part of our audit work we have: • 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. We assessed the inputs from the Operator's models to produce an audit estimate for each disclosure within the financial statements. We then compared this with the Council's figures for its accounting estimate. The total future payments disclosed for all PFI schemes are in line with the audit estimates. We did however identify some differences between our estimates and the Council's estimates, which were reported in our Audit Findings Report. 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.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
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.	As part of our audit work we have:: • 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 In 2015/16 the Council have had valuations on a number of assets • 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 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. 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.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Group accounts The Council prepares consolidated accounts for Wolverhampton Homes. This will be the first year of our audit of the consolidated accounts. The Council is considering setting up companies in the energy and house building sectors which will need to be considered against the Group standards .	As part of our audit work we have: • assured ourselves over the material accuracy of Wolverhampton Homes financial statements as reflected in the group financial statements • 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 We identified from review of the Council's consolidation workpaper that the formulae being used to calculate the entries for elimination on consolidation were incorrect. This resulted in Housing Services income and expenditure being overstated by £98m in the group CIES and debtors and creditors being overstated by £9.4m. The financial statements were corrected in this regard.
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.	As part of our audit work 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. • 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. • undertaken procedures to confirm the reasonableness of the actuarial assumptions made. • 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. We did not identify any issues to report in relation to this risk
Welfare Expenditure Welfare benefit expenditure improperly computed.	As part of our audit work we have: • documented our understanding of processes and key controls over the transaction cycle and undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Undertook discovery testing on a sample of welfare benefit expenditure We did not identify any issues to report in relation to this risk.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Operating expenses Creditors understated or not recorded in the correct period (Operating expenses understated)	As part of our audit work we have: • 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 We did not identify any issues to report in relation to this risk
Employee remuneration Employee remuneration accruals understated (Remuneration expenses not correct)	As part of our audit work we have: • 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 • Performed trend analysis of monthly payroll information • Tested employee remuneration expenditure • Tested senior officer emoluments and exit packages We identified that: The Council do not routinely undertake a reconciliation between the payroll system and the general ledger. We carried out a reconciliation between the gross to net pay report provided by payroll and identified for gross pay, a difference of £0.8m between the ledger and the payroll system. The Council's payroll department acts as an agent for a number of external organisations and undertakes the payroll function on a monthly basis. As the Council is acting as agent, entries in relation to this payroll should be excluded from the CIES. This amounted to £7.6m in 2015/16. Both gross income and expenditure were reduced within the accounts to reflect the removal of this agency spend. Refer to our Audit Findings Report for full details of findings in respect of Employee Remuneration.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Property, Plant and Equipment	As part of our audit work we have: • 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 These are the most significant issues that were identified: 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. A recommendation was therefore raised in this regard. 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. We made several disclosure changes. Refer to our Audit Findings Report for full details of findings in respect of Property, Plant and Equipment.
Grant Revenues	As part of our audit work we have: • 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 We identified improvements to be made in relation to disclosures within two notes of the financial statements. Additionally we found that the accounting treatment of an overspend of Dedicated Schools Grant was incorrect meaning that the income within the CIES was overstated by £1.9m. Refer to our Audit Findings Report for full details of findings in respect of Grant Revenues.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

Our audit took longer than anticipated and we made a number of amendments to the financial statements. We still met the statutory timetable for completion of the audit and noted 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 have raised an additional fee for our work.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Risk Committee on 19 September 2016.

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 our Audit Findings 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 two impact on the resources available to the Council. The first relates to a £2m reduction in school reserves following the incorrect recognition of Dedicated Schools Grant. The overspend against budget of £2m was agreed by the Schools Forum, and is to be recouped when the Council receives the DSG in the 2016/17 financial year. The second is an unadjusted misstatement relating to the equal pay provision which, on the basis of the information available to us, is overstated by £4.3m.

In addition to the key audit risks reported above, we identified the following issues/adjustments during our audit:

- Amendments; we 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
- 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. We raised a recommendation in our Audit Findings Report for the finance team to seek a greater involvement in the valuation process such that they become the driving force behind what valuations are undertaken and by when.

Audit of the accounts

- 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. We therefore raised a recommendation within our Audit Findings Report for the Council to 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
- 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 raised a recommendation within our Audit Findings Report for the Council to implement a routine reconciliation/review process.

Annual Governance Statement and Narrative Report
We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)
We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider

Other statutory duties
We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not had to exercise any of these powers.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in in the tables overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

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
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.	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: • 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	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. 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. 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." 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. 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." **On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements**

Key findings

Significant risk	Work to address	Findings and conclusions
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." 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.	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.	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). 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. 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. 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: • 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. 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”. 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 **On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements**

Key findings

Significant risk	Work to address	Findings and conclusions
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 £63,000 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.	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.	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 £63,000 underspent respectively. In particular: • 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. 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. 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 (£0.2m). Budget holders are encouraged to monitor their budgets as a whole and not isolate savings. Budgets are reduced to reflect savings at a cost entre 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. Work is ongoing in this area to control the expenditure but arrangements to plan and monitor savings and budgets appear satisfactory. **On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements**

Key findings

Significant risk	Work to address	Findings and conclusions
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.	We reviewed the action taken against the risks identified in the prior year's AGS with regard to asset management.	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. 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. 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. 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. 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. 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). Clearly, further work is needed in this area but the arrangements appear satisfactory. **On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements**

Working with the Council

Working with you in 2016/17
Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued two Client Briefings which we have shared with finance staff. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect.

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues. The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

We will also continue to work with you and support you over the next financial year. Our focus will be on:

- **An efficient audit –** 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. continuing to deliver an efficient audit
- **Understanding your operational health** – to inform our value for money conclusion
- **Support outside of the audit** – our advisory team are in discussion with you on income generation

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees* £
Statutory audit of Council	189,428	224,271**	252,570
Housing Benefit Grant Certification	19,128	19,128	21,940
Total fees (excluding VAT)	**208,556**	**243,399**	**274,510**

* Predecessor auditor, pwc.

** includes additional audit fees of £34,843 for overruns due to the additional work involved in completing the audit

Fees for other services

Service	Fees £
Audit related services:	
• HCA Compliance Audit CASHH scheme	2,115
• Pooling of Housing Capital Receipts	2,000
Non-audit services relating to 2015-16 financial year	
• Cost Assurance	49,995
Total fees (excluding VAT)	**54,110**

Reports issued

Report	Date issued
Audit Plan	14 March 2016
Audit Findings Report	19 September 2016
Annual Audit Letter	October 2016

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