



The Audit Plan for City of Wolverhampton Council

Year ended 31 March 2017

13 March 2017

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13 March 2016

Dear Members of the Audit & Risk Committee

Audit Plan for City of Wolverhampton Council for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of the City of Wolverhampton Council, the Audit & Risk Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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 which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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 look forward to working with you during the course of the audit.

Yours sincerely

Mark Stocks

Engagement Lead

Chartered Accountants

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Understanding your business and key developments

Developments

Highways network asset (HNA)

On the 14 November, 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016/17. This deferral is due to delays in obtaining updated central rates for valuations. CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. It currently anticipates that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

Integration with health sector

'Better Health and Care In the Black Country and West Birmingham' is the theme of the Sustainability and Transformation Plan, which the Council has been invited to contribute to the development of. The Council recognises that it needs to work with its partners to ensure that the interests and views of people in the City of Wolverhampton are represented.

Combined Authority

The Combined Authority came into existence on 17 June 2016. The Council is a member authority and therefore this is a major strategic partnership. There is uncertainty as to the role of the Mayor, due to be elected in May 2017, and any impact that this new leadership role will have.

Key challenges

Autumn Statement

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved powers to Local Authorities. No plans were announced to increase funding for adult social care.

Financial resilience

The Council has a historic track record of meeting savings targets and delivering balanced budgets. However, the Budget 2016/17 and Medium Term Financial Strategy 2016/17 to 2019/20 approved by Full Council on 2 March 2016, identified that the Council would be faced with funding further budget reduction and income regeneration proposals totalling £54.6 million over the three year period to 2019/20. While a balanced budget has now been set for 2017/18, work continues to address the projected budget deficit in 2018/19 and 2019/20 of £30.4 million.

Key performance indicators

Measure (as at February 2017)	Value £'000
Projected outturn – budget requirement	216,669
Projected outturn – total resources	(217,166)
Projected underspend	497

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

For the 2016/17 financial statements, we are working with the Council's accounts closedown team to achieve a deadline of 31 May 2017 for unaudited accounts, and an audit completion deadline of 31 August 2017, (albeit acknowledging that the accounts themselves will not be approved and signed until the Audit and Risk Committee have met in September). This should stand us in good stead to meet the 2017/18 deadline of 31 July 2018.

Our response

- We will discuss with you your progress in implementing the HNA requirements, highlighting any areas of good practice or concern which we have identified.
- We aim to complete all our substantive audit work of your financial statements by 25 August 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

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 concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £13,872k (being 1.75% of gross revenue expenditure). In the previous year, we determined materiality to be £13,359k (being 1.75% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors 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 accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £693k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	Related party transactions have to be disclosed if they are material to the Council or to the related party	£20,000
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000 however this may be lower as the concept of related party transactions takes in to account what is material to both the Council and the related party.

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at City of Wolverhampton Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including City of Wolverhampton Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for City of Wolverhampton Council.
Management override of controls	Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	Work completed to date: <ul style="list-style-type: none"> • Discussions with management with regard to accounting estimates, judgments and decisions likely to be made in the preparation of the financial statements • Review of journal entry process Further work planned: <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • Review of unusual significant transactions

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (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 date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
<p>Valuation of property, plant and equipment</p>	<p>The Council has amended the process it applies to revaluations. Previously it revalued its assets on a rolling basis over a five year period, but from 2016/17 onwards it will revalue all assets over £1 million every year, with the remainder being revalued on a cyclical basis or as considered necessary.</p> <p>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>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
<p>Valuation of pension fund net liability</p>	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Significant risks identified (continued)

Significant risk	Description	Audit procedures
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements. • We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Documented the processes and controls in place around accounting for operating expenses. We have undertaken walkthrough tests to confirm the operation of the controls <p>Further work planned:</p> <p>We will carry out testing including</p> <ul style="list-style-type: none"> the completeness of the subsidiary system interfaces and control account reconciliations Confirm our understanding of the accruals process and test accruals cut off testing of purchase orders and goods received notes (both before and after year end). <p>Testing will also cover a sample of operating expenses covering the period 1/4/16 to 31/3/17 to ensure they have been accurately accounted for and in the correct period.</p>
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Documented the processes and controls in place around accounting for operating expenses. We have undertaken walkthrough tests to confirm the operation of the controls <p>Further work planned:</p> <p>We will carry out testing including:</p> <ul style="list-style-type: none"> the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements review of monthly trend analysis of total payroll substantive testing of senior officer remuneration

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

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

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

- Heritage assets
- Property, plant and equipment
- Investment properties
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- New note disclosures
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

Group audit scope and risk assessment

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

Component[/s]	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
Wolverhampton Homes Limited	Yes	<ul style="list-style-type: none"> 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"> Review of outcome of audit under International Financial Reporting Standards to be performed by non-GT member firm RSM UK Audit on Wolverhampton Homes Limited financial statements Review of the Council's consolidation of the financial results of the subsidiary into the group accounts

Key changes within the group:

- We are aware that the Council has a new subsidiary which began trading during the 2016/17 financial year: City of Wolverhampton Housing Company Limited, which trades as WV Living Ltd.
- The Council are in the process of determining the significance of this component to the group
- Once available we will review this conclusion and consider whether our group scope needs to be widened to include this subsidiary. Should our approach change in this regard, we will inform the Audit and Risk Committee.

Audit scope:

Comprehensive – the component is of such significance to the group as a whole that an audit of the components financial statements is required

Targeted – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Involvement in the work of component auditors

The nature, time and extent of our involvement in the work of RSM UK Audit will begin with the issue of instructions including guidance on designing procedures and requesting detail of the results of procedures that they have carried out. This will be followed by the review of relevant aspects of the RSM UK Audit findings.

Value for Money

Background

The Code requires us to consider whether 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.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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.

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of sound governance Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing and utilising assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission and Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. These are set out overleaf.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give on 18 September 2017.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>Medium Term Financial Resilience The Council has historically managed its finances well, achieving financial targets and is on course to achieve its 2016/17 budget. Nevertheless, the scale and pace of change for local government will affect future projections and it is important the Council is on track to identify and produce savings required to deliver balanced budgets in 2018/19 and 2019/20.</p>	<p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>	<p>We will review the Council's Medium Term Financial Strategy and monthly financial monitoring reports and assess the assumptions used.</p>
<p>Ofsted inspection of children's services We are aware that the Council's children's service is currently the subject of an Ofsted inspection (as at the time of writing). Until such time as Ofsted confirms that adequate arrangements are in place, this could potentially be a significant risk to the Council's arrangements under the Value for Money conclusion.</p>	<p>This links to the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of sound governance, and planning, organising and developing the workforce effectively to deliver strategic priorities.</p>	<p>We will review update reports from Ofsted as they become available and take these into account in forming our conclusion</p>
<p>Combined Authority The Combined Authority came into existence on 17 June 2016. The City of Wolverhampton Council is a constituent authority and therefore this is a major strategic partnership. There is uncertainty as to what the impact of the Mayor will be. The Council's 2015/16 Annual Governance Statement noted that the Council needs to work effectively with its partners including other local authorities and LEPs to ensure that the CA is a success and that it benefits the City of Wolverhampton.</p>	<p>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>	<p>We will review the arrangements the Council has in place to mitigate the risk of ineffective working relationships and to establish how the Council is identifying, managing and monitoring risks in relation to the Combined Authority.</p>

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>Worklessness The Council highlights in its risks register that if the city residents do not have the appropriate skills that employers require then they will be unable to access the jobs and opportunities. This will impact on high rates of unemployment and the demand on Council services.</p>	<p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making, as well as working with third parties effectively to support the delivery of strategic priorities.</p>	<p>We will review the Council's progress against the risk noted in their risk register in relation to Skills for Work.</p> <p>Through discussion with officers and review of relevant documents we will assess whether actions taken have been and are being effective.</p>
<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. It was noted in the 2015/16 Annual Governance Statement that a Strategic Asset Plan had yet to be developed.</p>	<p>This links to the Council's arrangements for managing and utilising assets effectively to support the delivery of strategic priorities.</p>	<p>We will review the Council's progress against the risk noted in their 2015/16 Annual Governance Statement in relation to Strategic Asset Management.</p> <p>Through discussion with officers and review of relevant documents we will assess whether these actions have been undertaken and are effective.</p>

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
 - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

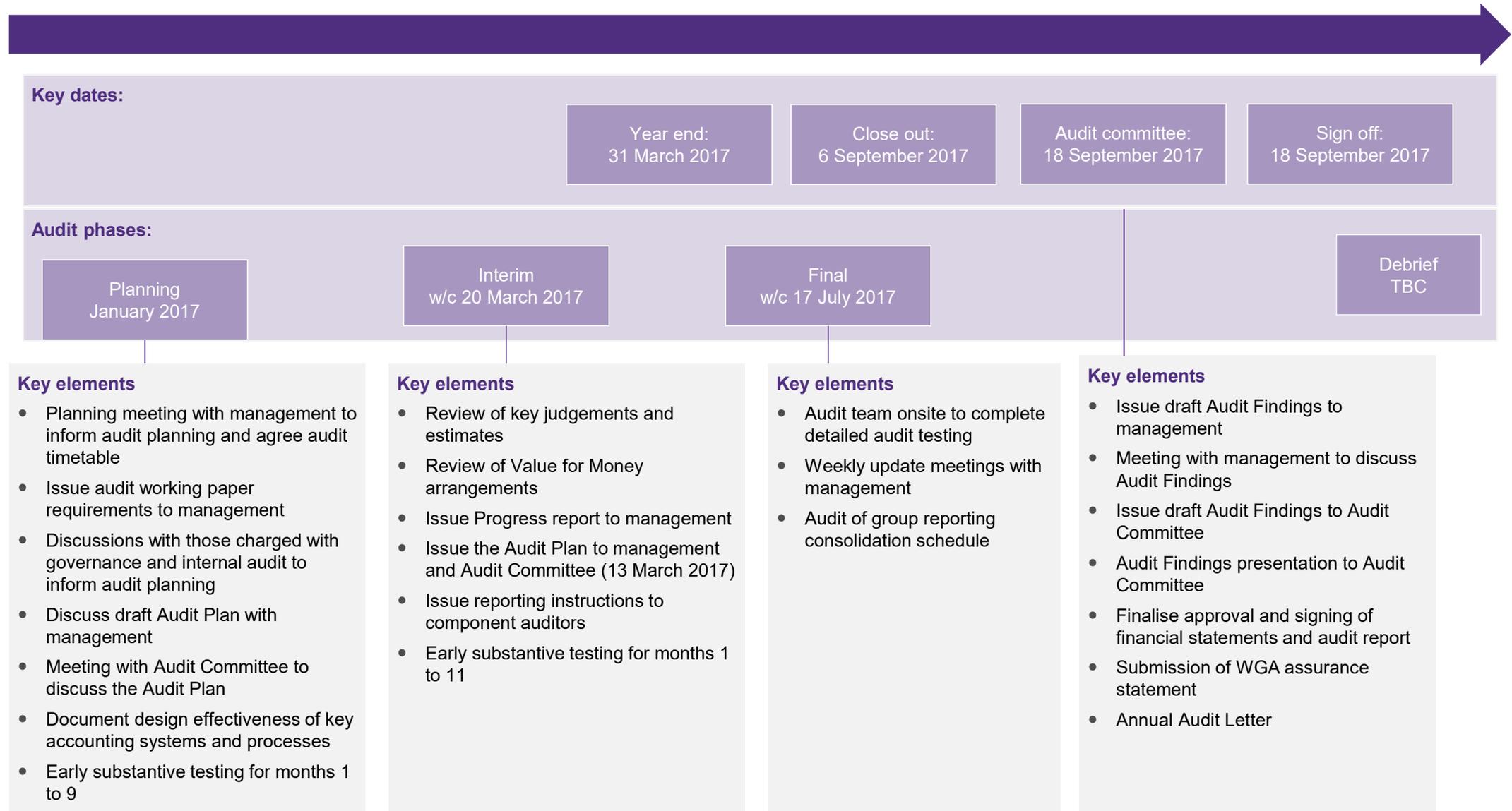
	Work performed	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. We have reviewed reports issued by internal audit for the first 3 quarters of the year. Our work has not identified any issues which we wish to bring to your attention.	Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements
Walkthrough testing	We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach.

Results of interim audit work (continued)

	Work performed	Conclusion
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>We are awaiting supporting documentation for some of the journals selected for testing and will select an additional sample of journals to test for months 10 to 12 when we return for our second interim visit in March 2016.</p>
Early substantive testing	<p>We have tested a sample of employee remuneration transactions from months 1 to 10, agreeing them to payslips, recalculating Employer's National Insurance and pension contributions and agreeing the salary to supporting documentation from HR.</p>	<p>No issues have been identified that we wish to highlight for your attention to date.</p> <p>We will test transactions from months 11 and 12 during the audit fieldwork stage during July and August.</p>

The audit cycle

The audit timeline



Audit Fees

Fees 2016/17

	£
Council audit	189,428
Grant Certification	19,128
Total audit fees (excluding VAT)	208,556

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

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

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates

Independence and non-audit services

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 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.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to City of Wolverhampton Council. The following audit related and non-audit services were identified for the Council for 2016/17:

Fees for other services

Service	Fees £	Planned outputs
Non-audit related		
Income generation 2016/17	35,000	The output will be a diagnostic which reviews current performance against that of peers, to identify areas for improvement and new opportunities, and to improve policy and governance structures.

The amounts detailed are fees agreed to date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

The above services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Communication of audit matters with those charged with governance

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and 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.

This plan 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.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 and includes nationally prescribed and locally determined work (<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.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
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 the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

Appendix 1: Status of 2015/16 Audit Recommendations

The table below records management's responses to the high and medium priority audit recommendations raised in 2015/16. We will follow up to assess the effectiveness of actions taken as part of our audit fieldwork and will report our conclusions to the Audit and Risk Committee in our Audit Findings Report.

Priority

High - Significant effect on control system

Medium - Effect on control system

Rec No.	Recommendation	Priority	Management response
1.	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 of their monthly reconciliation processes.	Medium	<ul style="list-style-type: none"> Dedicated Finance Officer working on this reconciliation Weekly meetings to monitor progress Going forward monthly sign-off of this reconciliation
2.	<p>Where the Council acts as a payroll agent for other organisations. 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	<ul style="list-style-type: none"> Outstanding 2014/15 and 2015/16 Pension Fund invoices raised and paid Pension Fund invoices now raised monthly Further investigation needed on external organisations paying from their own account. Complications regarding shared VAT registration with the PF and other organisations not having their own PAYE reference. EDD: end of Q1 2017/18.
3.	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.	Medium	<ul style="list-style-type: none"> Differences identified Plan in place to rectify by 31 March 17

Appendix 1: Status of 2015/16 Audit Recommendations (continued)

Rec No.	Recommendation	Priority	Management response
4.	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	<ul style="list-style-type: none"> • Asset Valuation Initiation document shared with Julia Nock and valuer (Bruton Knowles) 19 October 2016 • Previously <ul style="list-style-type: none"> - Assets valued on a rotating basis every 5 years • Now <ul style="list-style-type: none"> - Assets over £1m valued annually - Assets below £1m valued on a rotating basis every 5 years - A review of market conditions annually to determine if any assets below £1m need valuing in the current year
5.	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	<ul style="list-style-type: none"> • Members reminded the importance of keeping the register up to date. • Members able to update the register online via Modern.Gov at any time.



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