

# *Wolverhampton City Council*

*Report to those charged with governance*

Report to the Audit Committee of the Council on the audit for the year ended 31 March 2014

Required by International Standard on Auditing 260 – Reporting to those charged with governance

Government and  
Public Sector

September 2014

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# Contents

## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

<b><i>Executive summary</i></b>	<b>2</b>
<b><i>Audit approach</i></b>	<b>4</b>
<b><i>Significant audit and accounting matters</i></b>	<b>10</b>
<b><i>Internal controls</i></b>	<b>24</b>
<b><i>Risk of fraud</i></b>	<b>25</b>
<b><i>Fees update</i></b>	<b>27</b>
<hr/>	
<b>Appendices</b>	<b>29</b>
<b><i>Appendix 1: Letter of representation</i></b>	<b>30</b>

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# *Executive summary*

*An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.*

## *Background*

This report contains the significant matters arising from our work.

We presented our plan to you in March 2014. In our progress report in July 2014, we told you about an amendment to our audit approach for the Implementation of Agresso.

## *Audit Summary*

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts and Value for Money conclusion by 30 September 2014 following approval of the Statement of Accounts by the Section 151 Officer and the Audit Committee on the 22 September 2014.

There are a few minor outstanding matters – we will update you at the Committee.

### *Quality of draft accounts*

Your draft accounts were submitted to us by the 30 June deadline and were of a good quality. Management agreed to make some changes to disclosures that we suggested.

### *Readiness for start of audit and working papers*

Working papers were ready at the start of the audit and we had already been able to select samples of transactions for audit testing.

### *Availability and responsiveness of staff*

Wolverhampton City Council

The finance team and key contacts elsewhere were available throughout the audit and responded promptly to our audit questions and requests for information.

### *Significant audit and accounting issues*

We identified some audit and accounting issues during the audit which are explained later in this report. We are satisfied that these are appropriately reflected and disclosed in the financial statements and will be giving an unqualified opinion on the 2013/14 financial statements.

### *Deficiencies in internal control systems*

We identified one significant deficiency in internal control. Your records of land and buildings areas which underpin your valuations are not always accurate. Management has already put a new system in place to address this. See page 24. We did not identify any further deficiencies.

### *Risk of fraud*

We have not identified any instances of fraud that would impact on our audit opinion.

### *Annual Governance Statement*

We have confirmed that the Annual Governance Statement has been prepared in accordance with the CIPFA / SOLACE “Delivering Good Governance in Local Government” framework.

### *Value for Money*

We will be issuing an unqualified Value for Money conclusion. We report in more detail a summary of our work and the findings that we wish to bring to your

attention and that support our overall conclusion later in this report.

### *Reporting to you*

The following reports have been issued to those charged with governance in 2013/14:

- External Audit Plan 2013/14 – March 2014
- External Audit Progress Report 2013/14 – July 2014

We have issued the following report to the Strategic Director Delivery during 2013/14:

- Financial Resilience report – September 2014

Please note that this report will be sent to the Audit Commission in accordance with the requirements of its standing guidance. We look forward to discussing our report with you on 22 September 2014.

We thank the Finance Team and others for their support and assistance during the course of our work.

# Audit approach

*We reported our planned audit approach to you in our 2013/14 Audit Plan. This was supplemented by a report to the Audit Committee in June 2014.*

*These documents set out the risks to be addressed as part of the audit and the work we planned to do in response to those risks.*

*We have summarised these risks and our actual responses in the table opposite and on the following pages.*

Our audit approach was set out in our audit plan which we presented to you in March 2014. In our progress report presented to you in July 2014 we provided an update against our plan which included elevating the risk of misstatement from the Implementation of Agresso.

We have summarised below the audit approach we took to address each significant and elevated risk identified in our audit plan and the outcome of our work.

Risk	Category	Audit approach	Results of work performed
<p><b>Management override of controls</b> ▶</p> <p>ISA (UK&amp;I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	<p>Significant</p> <p>●</p>	<p>We considered those areas where management could use discretion outside of the financial controls in place to misstate the financial statements.</p> <p>We performed procedures to:</p> <ul style="list-style-type: none"> <li>• review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;</li> <li>• test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported year-end position;</li> <li>• review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable;</li> <li>• evaluate the business rationale underlying significant transactions outside the normal course of business; and</li> <li>• target fraud risks through the use of unpredictable procedures.</li> </ul>	<p><b>No instances of management override of controls were identified as a result of our work.</b></p>

Risk	Category	Audit approach	Results of work performed
<p data-bbox="616 247 963 343"><b>Risk of fraud in revenue and expenditure recognition</b></p> <p data-bbox="616 383 963 766">Under ISA (UK&amp;I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government because the opportunities to perpetrate fraud, which the ISA considers are usually present in relation to revenue, are equally likely to present themselves through manipulation of expenditure in the public sector.</p>	<p data-bbox="1048 247 1182 303">Significant</p> <ul data-bbox="1048 311 1182 821" style="list-style-type: none"> <li>●</li> </ul>	<p data-bbox="1196 247 1758 327">We performed a broad range of specific audit procedures to address this risk as well as taking assurance from other audit work. In particular, we:</p> <ul data-bbox="1196 343 1758 821" style="list-style-type: none"> <li>• understood and evaluated key income and expenditure controls;</li> <li>• evaluated the accounting policies for income and expenditure recognition to ensure that they are consistent with the requirements of the Code of Practice on Local Authority Accounting;</li> <li>• tested the appropriateness of journal entries and other adjustments;</li> <li>• reviewed accounting estimates for income and expenditure, for example, provisions;</li> <li>• performed cut-off tests at year-end and after date cash testing to ensure items have been recorded in the appropriate period; and</li> <li>• performed unrecorded liabilities testing.</li> </ul>	<p data-bbox="1780 247 2094 327"><b>No issues were noted as a result of these procedures.</b></p>

Risk	Category	Audit approach	Results of work performed
<p><b>Property, Plant and Equipment Valuation</b></p> <p>Property, Plant and Equipment (PPE) is the largest figure on your Balance Sheet.</p> <p>You value your properties at fair value using a range of assumptions and the advice of internal and external experts.</p> <p>Specific areas of concern risk for 2013/14 included the risk that:</p> <ul style="list-style-type: none"> <li>• asset valuation base data may be inaccurate or incomplete;</li> <li>• the Council's valuation assumptions may not be appropriate;</li> <li>• assets' actual market values may fluctuate materially but may not have been re-valued in the accounts;</li> <li>• capital expenditure may not be accurately allocated between enhancing and non-enhancing; and</li> <li>• newly established Academy schools may not have been correctly treated in the accounts.</li> </ul>	<p>Significant</p> <p>●</p>	<p>We reviewed the judgements, assumptions and data used; the reasonableness of estimation techniques applied; and the expertise of your valuation experts.</p> <p>We considered the Council's response to control recommendations made in the previous year and validated base data to underlying records.</p> <p>We reviewed the accounting entries made to recognise the valuation changes in the accounts.</p> <p>We reviewed the accounting treatment and corresponding valuation of schools that have achieved Academy status during 2013/14, and confirmed that these have been dealt with in accordance with agreed accounting practice.</p> <p>Where assets were not re-valued in year we understood the steps taken to ensure that your balance sheet is materially accurate at the year end.</p>	<p>We identified discrepancies in the base data used in the revaluation of PPE. In a small number of cases we were not able to confirm gross internal floor areas of buildings to supporting evidence. In response, the Council instructed surveyors to provide up to date measurement for those properties.</p> <p><b>Based on the outcome of these surveys we have been able to conclude that the base data used results in a materially accurate valuation.</b></p> <p>Although we have identified a control weakness over base data quality, the Council has been able to correct for issues identified and demonstrate that the impact of remaining data discrepancies is immaterial to the accounts. Further details are provided on page 10.</p> <p><b>No further issues were noted in our work performed.</b></p>

Risk	Category	Audit approach	Results of work performed
<p><b>Provision for Equal Pay</b></p> <p>As in previous years, the Council is expected to include a provision in the accounts to reflect its liability for Equal Pay and back pay claims.</p> <p>Over the last six years the Council has received notification of employment tribunal claims against the Council alleging breach of Equal Pay legislation. The Council has engaged Solicitors to provide legal advice and conduct proceedings on behalf of the Council in relation to these claims.</p> <p>On the basis of the advice provided and the information available the Council concluded on what it felt was the most probable liability as at 31 March 2014. That provision figure reflected known claims as well as other potential claims.</p>	<p>Elevated</p> <p>●</p>	<p>We have updated our understanding of the Council's arrangements for managing these matters through discussion with key officers.</p> <p>The Section 151 Officer has kept us updated on developments regarding the Council's efforts to settle its outstanding equal pay liabilities.</p> <p>We have reviewed the Council's draft accounting policies with respect to the recognition of related expenditure and the measurement and valuation of related liabilities, and have no concerns to report.</p> <p>We evaluated the accounting policies for recognising associated expenditure and liabilities.</p> <p>We tested whether payments, journal entries and other adjustments in the financial statements relating to Equal Pay are materially accurate and whether they meet relevant financial reporting standards.</p> <p>We sought confirmation on these matters from the Council's legal advisors.</p> <p>We reviewed and challenged assumptions made by the Council regarding relevant case law and the associated implications for the Council's provision.</p>	<p><b>No issues were noted as a result of these procedures.</b></p>



Risk	Category	Audit approach	Results of work performed
<p><b>Implementation of Agresso</b></p> <p>The risk around Agresso implementation was reported to the Audit Committee as a 'normal' risk in our audit plan. Difficulties noted during the implementation process, and concerns about resulting complications during the audit process increased the risk to our audit. In particular, there was an increased risk of misstatements due to incorrect data migration and reliability of reports run from Agresso as well as potential difficulties in identifying 13/14 accruals as a result of the issues surrounding implementation of the creditors module within Agresso.</p> <p>We therefore increased the risk level to reflect this, and the additional work required in this area.</p>	<p>Elevated</p> <p>●</p>	<p>We understood, evaluated and validated controls within the new ledger system , specifically within the following domains:</p> <ul style="list-style-type: none"> <li>• Data transfer from the old to new ledger system;</li> <li>• Access control;</li> <li>• Computer operations; and</li> <li>• Change management.</li> </ul> <p>We carried out a walk-through of the creditors and debtors end to end processes to confirm that our proposed audit approach will not be affected.</p> <p>We also performed additional procedures around the completeness and cut-off of year end creditor balances, to respond to the system issues noted around the payments module, to ensure that period end balances are accurate and complete.</p>	<p><b>No issues were noted as a result of these procedures.</b></p>

### *Intelligent scoping*

In our audit plan we reported our planned overall materiality and methodology underpinning it. We use this materiality when planning the overall audit strategy.

*We plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.*

*We identify and assess the risks of material misstatement at two levels: the overall financial statement level; and in relation to financial statement assertions for classes of transactions, account balances and disclosures.*

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold with the Audit Committee at its meeting in March 2014.

Our materiality thresholds were updated on receipt of the draft 2013/14 financial statements.

Our revised materiality levels for both the Group and Council only audit are as follows:

	<b>Group</b>	<b>Council only</b>
	<b>£m</b>	<b>£m</b>
Overall materiality	14.5	13.8
Clearly trivial reporting de minimis	0.7	0.7

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# Significant audit and accounting matters

*This section of the report summarises the significant audit and accounting matters we have identified in our work sufficiently promptly for you to take appropriate action.*

*You prepared your accounts to a high standard and the working papers were ready for audit on a timely basis.*

*We anticipate issuing an unqualified audit opinion.*

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

## Accounts

We have completed the majority of the audit of the Council's group accounts in line with accounting standards. At the time of writing, we have work to complete in a small number of areas. This includes:

- completion of our internal review and quality control procedures including our final review of the Council's amended financial statements and post audit adjustments;
- approval of the Statement of Accounts and letters of representation by the Audit Committee;
- receipt and review of the final signed financial statements and Annual Governance Statement;
- receipt of the signed representation letter; and
- completion procedures including subsequent events review.

Subject to the satisfactory resolution of these matters, the finalisation of the Statement of Accounts and their approval of them we expect to issue an unqualified audit opinion.

As part of our work on the Statement of Accounts we will also examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and anticipate issuing an opinion stating in our view they are consistent with the Statement of Accounts.

## Accounting issues

### Valuation of property, plant and equipment

Your accounting policy is that your property, plant and equipment is shown at fair value. This requires review of the value of your housing stock and other land and buildings every year.

Your internal valuers make judgements about property values which we benchmark using an Audit Commission annual report from an independent Chartered Surveyor, including trends in land prices and building cost indices.

We also tested that the underlying data on the type, size and nature of assets used in the valuation - 'base data' - was appropriate by checking supporting documentation.

Early in the audit we found differences between some floor areas and land acreages in your property systems and those used in the valuations.

In response, the Council updated the revaluation before preparing the draft accounts and presented a revised revaluation for final audit.

We were still unable to confirm the accuracy of the base data for 16 properties in our sample. The Council instructed its surveyors to provide up to date re-measurements for these properties so that we could confirm the accuracy of the records used by the valuer.

We did identify a number of small differences in the actual size of the properties to the size used by the Valuer but these were not significant. When we find an error in a sample we have to consider whether similar errors in the whole

population might be material. Even after extrapolating the error rate to the whole population, the variance was trivial.

We would point out that our work is designed only to check the accounts. More importantly, you need accurate details of floor space and acreage if you are to manage your property effectively. We are aware of significant improvements in the management of the Council's asset base which has helped identify a number of assets that are suitable for disposal.

**We concluded that the revised base data provides materially accurate valuations. We raised a control issue that the base data must be complete and accurate.**

#### *Accounting for Academy Schools*

Last year we found that some Academy School transfer accounting did not follow the rules.

During 2013/14 the Council transferred 8 academies, recognising a loss on disposal of £63.2m. Capital expenditure amounting to £2.1m was spent on Academy schools in year and correctly accounted for as revenue expenditure funded from capital under statute (REFCUS).

**We are pleased to confirm that the Council has applied the correct accounting treatment this year.**

#### *Equal Pay Provision*

As in previous years, the Council has included a provision in the accounts to reflect the most probable liability relating to equal pay and back pay claims.

Over the last six years the Council has received notification of a number of employment tribunal claims alleging breach of Equal Pay legislation. The Council has engaged Solicitors to provide legal advice and conduct proceedings.

In 2013/4, £6m of Equal Pay claims were settled. A larger value of other known or potential claims remains unresolved.

Wolverhampton City Council

The Council has considered the legal advice and other information and included a provision of £18.7m (£26m at 31 March 2013).

We have reviewed the documentation and calculations supporting this provision, including payments made during the year. £11.2m of the provision is supported by known cases that can be quantified with a high degree of certainty.

There are a number of other potential claims which are harder to quantify. The treatment of these claims requires judgement, and there remains risk that the value of the actual liability will differ from management's assumptions.

We are comfortable that the estimate made to cover second generation claims and any other claims is consistent with the information we have reviewed.

Given the inherent uncertainty in the estimate we are also seeking representation from the Section 151 Officer that the judgements taken have been made in good faith, and are the most appropriate given all the advice received. This is a standard audit procedure.

We have also requested formal confirmation from the Council's legal advisors that the proposed accounting treatment is consistent with the advice they have provided. This is also a standard audit procedure.

**Subject to these confirmations we expect to conclude that the need for the provision is reasonable and meets relevant financial reporting standards and the value is materially accurate based on available information.**

#### *Implementation of Agresso*

We discussed progress with management throughout the year and have been fully briefed on progress and issues affecting the implementation.

As you know, there have been some delays and difficulties with the implementation, primarily in the payroll and payments modules. On balance, and in comparison with

*There have been some changes to the accounting standard for Employee Benefits (IAS 19) for 2013/14.*

*These changes have been reflected in the Council's financial statements in Note 6 to the financial statements.*

*We are required to tell you about all misstatements we have identified that management have chosen not to amend the accounts for. We have not identified any such unadjusted misstatements.*

similar implementations, these issues largely reflect the inevitable complexity of changing systems in a large organisation.

We have commented previously that the management of the implementation has been sound and believe that the Council is already starting to benefit from the introduction of Finance, Procurement and elements of the HR system modules.

We met with a number of individuals involved in managing the new system to ensure that our detailed audit plans were not impacted by the system issues.

We carried out IT general controls and concluded that access is sufficiently restricted to appropriate personnel; program access is reasonable; staff received suitable training for use of Agresso; and there has been a rigorous process undertaken for data migration.

We performed walkthrough testing of the processes and controls within the new ledger system for creditors, debtors and bank reconciliations and identified no issues.

We also performed additional audit testing to check that any old financial year invoices paid in the new year were correctly accrued for.

**We are pleased to confirm that no issues were noted from the work performed.**

### *Pensions liability*

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the West Midlands Pension Fund. Your net pension liability at 31 March 2014 was £1,226 million (31 March 2013 - £1,300 million).

You rely on the work of an actuary in calculating these balances. Changes in the assumptions used by the scheme and the results of the triennial valuation have yielded a

pension actuarial gain of £110 million in 2013/14 (£94 million loss in 2012/13).

We reviewed the reasonableness of the assumptions underlying the pension liability and no exceptions were noted to be outside our tolerable range.

Our letter of representation will ask you to confirm to us that you are satisfied with the assumptions being made in arriving at these judgements and estimates in the accounts.

We validated the data supplied to the actuary on which to base their calculations.

**We have no issues to report in terms of the accuracy and the completeness of the data submitted to the actuary.**

### *Changes to IAS 19: Employee Benefits (prior period adjustment)*

From 2013/14 there have been changes to the accounting for defined benefit schemes and termination benefits. These changes have been reflected in the Council's financial statements in Note 6 to the financial statements.

**We have no issues to report from our review of these amended disclosures.**

### *Misstatements and significant audit adjustments*

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. We are also required to report to you material amendments made to your draft accounts as a result of the audit.

**We are pleased to report that our work has not identified any material errors in the draft accounts and there are no uncorrected misstatements.**

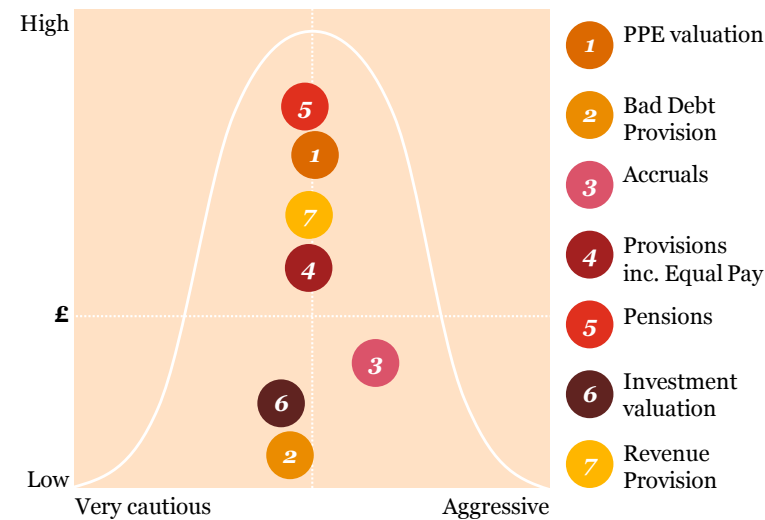
## Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask the Audit Committee to represent to us that the selection of, or changes in significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

**We have no issues to report.**

## Judgments and accounting estimates

The Council is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. We outline below a summary of our view of the key accounting judgments applied by management:



In addition to valuations of property, plant and equipment and the pension liability which were discussed in the sections above; the following significant judgements and accounting estimates were used in the preparation of the financial statements:

- **Property, Plant and Equipment - Depreciation** - You charge depreciation based on an estimate of the Useful Economic Lives of your Property, Plant and Equipment (PPE). This involves a degree of estimation and impacts on the amount charged to the CIES (although there is no impact on the General Fund).
- **Bad Debt Provision** – Your Bad Debt Provision for sundry and collection fund debtors is calculated on the basis of age and an assessment of the potential recoverability. There is an inherent level of judgement involved in calculating these provisions. The bad debt provision at 31 March 2014 is £13.5 million, compared with £13.4 million as at 31 March 2013. We have reviewed the basis of calculation and identified no concern.

*As part of preparing the accounting, management make a number of judgements and accounting estimates.*

*During our audit we review and challenge management on these judgements. We consider whether they are reasonable in light of the information available.*

*We found that management has made materially appropriate judgements in preparing the Statement of Accounts.*

- **Accruals** - You raise accruals for income and expenditure where an invoice has not been raised or received at the year end, but you know there is a liability to be met or income due which relates to the current year. This involves a degree of estimation. One accounting policy change made during the 2013/14 financial year is that manual accruals are only processed for amounts of £10,000 or more except where the expenditure is by schools or funded directly from external grants. This was based on analysis carried out on the 2012/13 year end accruals which identified that the sum of income and expenditure accruals less than £10k amounted to a net expenditure impact of £2.1m which is immaterial to the accounts. Application of an accruals threshold is in line with policies at other councils.
- **Provisions:** Provisions are liabilities of an uncertain timing or amount and therefore there is an inherent level of judgement to be applied. Your equal pay provision is your most significant provision and has been considered above. All provisions are assessed to ensure they are not understated. A new provision arising in year is the business rates appeals provision discussed separately below.
- **Business rates appeals provision:** As a result of the changes to Business Rates regulations, the Council is now required to make provisions for the cost of refunding ratepayers who successfully appeal against the rateable value of their property. A provision of £1.7m was estimated as at 31 March 2014 and included in the draft accounts. To arrive at this estimate, the Council engaged with a consultant recommended by CIPFA. We assessed the reasonableness of the key assumptions used by the consultant in determining the provision by analysing appeals history over the past 10 years as well as the outcome of appeals since the 31 March 2014 and determined that the assumptions applied were appropriate. Of the 406 outstanding appeals at the 31 March 2014, 239 were either settled or withdrawn since the year end revealing a £202k under-provision on these

appeals at the 31 March 2014. In addition, 64 new appeals were lodged since the year-end which, if known about at the 31 March 2014, would have increased the provision by £120k. Neither of these outcomes require an audit adjustment as they fall below our clearly trivial reporting de minimis.

- **Investment valuation** - Consistent with prior periods you have estimated the value of the Council's investment in Birmingham Airport based on information provided by partners and valuation experts. The estimated fair value for the Council's investment at 31 March 2014 is £131k higher than the valuation held in the Council's balance sheet. The Council have chosen not to amend the balance sheet value.
- **Minimum Revenue Provision** – For 2013/14 you have determined a prudent method of calculating MRP that allows you to redeem your debt liability over a period which is expected to be equal to, or shorter than the period over which the capital expenditure is estimated to provide benefits. There is a significant degree of estimation involved and your method of calculation is relatively prudent.

## *Management representations*

The final draft of the representation letter that we ask management to sign is attached in Appendix 1.

## *Financial standing*

You identified no material uncertainties related to events and conditions that may cast significant doubt on the Authorities' ability to continue as a going concern and that in overall terms there are sufficient resources available to meet your commitments for at least a 12-month period after the projected date of our audit opinion. We concluded that this consideration is appropriate. In the section 'Economy, efficiency and effectiveness' we set out in more detail our conclusions on your medium term financial resilience.

## *Related parties*

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

To confirm completeness we performed a range of additional procedures to identify potential related party transactions.

**We did not identify any matters during the course of our work.**

## *Audit independence*

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “Communication with those charged with governance”, UK Ethical Standard 1 (Revised) “Integrity, objectivity and independence” and UK Ethical Standard 5 (Revised) “Non-audit services provided to audited entities” issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Council that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

### *Relationships between PwC and the Council*

We are aware of the following relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent

matters that have occurred during the financial year on which we are to report or up to the date of this document.

### *Relationships and Investments*

We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals.

### *Employment of PricewaterhouseCoopers staff by the Council*

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management position covering financial, accounting or control related areas.

### *Business relationships*

We have not identified any business relationships between PwC and the Council.

### *Services provided to the Council*

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm’s internal policies. The audit engagement is subject to an independent partner review of all significant judgements taken, including our reporting to the Audit Committee and a review of the annual report. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has also undertaken other work for the Council which is set out below; that may be perceived to impact upon our independence and the objectivity of our audit team, together with the related safeguards.

*We are required to demonstrate our independence by professional standards. Maintaining our independence is important to us in delivering you a robust external audit.*

*We have considered a range of factors to demonstrate our independence as auditors, including the provision of non-audit work.*

*We have concluded that we are independent and comply with the relevant UK regulatory and professional requirements.*



Support provided by PwC	Value (£)	Threats to independence and safeguards in place
Certification of claims and returns	44,200	<p><b>Self-review threat:</b> The audit team conduct the grant certification and this has arisen due to our appointment as external auditors. There is no self-review threat as we certify management completed grant returns and claims and our audit is not reliant upon the outcome of these certification claims.</p> <p><b>Self-interest threat:</b> As a firm, we have no financial or other interest in the results of the Council. We have concluded that this work does not pose a self-interest threat.</p> <p><b>Management threat:</b> PwC is not required to take any decisions on behalf of management as part of this work.</p> <p><b>Advocacy threat:</b> We have not acted for, or alongside, management and have therefore concluded that this work does not pose an advocacy threat.</p> <p><b>Familiarity threat:</b> Work complements our external audit appointment and does not present a familiarity threat.</p> <p><b>Intimidation threat:</b> We have concluded that this work does not pose an intimidation threat as we have not experienced any undue pressure from officers or councillors and the work will be conducted in accordance with advised agreed upon protocols, and there is no need for judgement. All findings are reported to management, and no process improvement recommendations are made.</p>
Decent Homes backlog grant certification	2,500	<p><b>Self-review threat:</b> There is no self-review threat as we certify management completed grant returns and claims and our audit is not reliant upon the outcome of these certification claims.</p> <p><b>Self-interest threat:</b> As a firm, we have no financial or other interest in the results of the Council. We have concluded that this work does not pose a self-interest threat.</p> <p><b>Management threat:</b> PwC is not required to take any decisions on behalf of management as part of this work.</p> <p><b>Advocacy threat:</b> We have not acted for, or alongside, management and have therefore concluded that this work does not pose an advocacy threat.</p> <p><b>Familiarity threat:</b> Work complements our external audit appointment and does not present a familiarity threat.</p> <p><b>Intimidation threat:</b> We have concluded that this work does not pose an intimidation threat as we have not experienced any undue pressure from officers or councillors and the work will be conducted in accordance with advised agreed upon protocols, and there is no need for judgement. All findings are</p>

		reported to management, and no process improvement recommendations are made.
FutureSpace: Final Business Case & Critical Friend	61,662	<p><b>Self-review threat:</b> The work is not required to support an opinion on the Council's accounts, policies and related notes for 2013/14 and thereafter is not dependent in any way on the work outlined in the scope of the proposed work. PwC's audit assessment of the Council's use of resources will not be affected by PwC carrying out this work. The decision on whether to progress to implementation and fully resource the FutureSpaces programme team will rest solely with the Council.</p> <p><b>Self-interest threat:</b> PwC has no financial or other interest in the conclusions of this work. Fees for this work and the audit are not material to PwC or the individuals involved. The fee is not contingent in nature.</p> <p><b>Management threat:</b> PwC is not required to take any decisions on behalf of management as part of this work.</p> <p><b>Advocacy threat:</b> We have not acted for, or alongside, management and have therefore concluded that this work does not pose an advocacy threat.</p> <p><b>Familiarity threat:</b> Neither the audit engagement leader nor any member of the audit team were involved in this work.</p> <p><b>Intimidation threat:</b> We have concluded that this work does not pose an intimidation threat as we have not experienced any undue pressure from officers or councillors and the work will be conducted in accordance with advised agreed upon protocols, and there is no need for judgement. All findings are reported to management, and no process improvement recommendations are made.</p>
Two stage gate reviews for the 'Future Works' programme	23,713	<p><b>Self-review threat:</b> The work has been conducted by a separate engagement team who have no involvement in the audit of the financial statements. There is no self review threat as the results of the reviews were not used by the audit team as they did not impact on the financial statements.</p> <p><b>Self-interest threat:</b> PwC has no financial or other interest in the conclusions of this work. Fees for this work and the audit are not material to PwC or the individuals involved. The fee is not contingent in nature.</p> <p><b>Management threat:</b> PwC is not required to take any decisions on behalf of management as part of this work.</p> <p><b>Advocacy threat:</b> We have not acted for, or alongside, management and have therefore concluded that this work does not pose an advocacy threat.</p> <p><b>Familiarity threat:</b> Neither the audit engagement leader nor any member of the audit team were involved in this work.</p> <p><b>Intimidation threat:</b> We have concluded that this work does not pose an intimidation threat as we have not experienced any undue pressure from officers or councillors and the work will be conducted in accordance with advised agreed upon protocols, and there is no need for judgement. All findings are reported to management, and no process improvement recommendations are made.</p>

Tax helpline	3,000	<p><b>Self-review threat:</b> The work has been conducted by a fully independent tax team who had no involvement in the audit of the financial statements. There is no self review threat as the tax team did not prepare any deliverables which were subject to audit.</p> <p><b>Self-interest threat:</b> PwC has no financial or other interest in the conclusions of this work. Fees for this work and the audit are not material to PwC or the individuals involved. The fee is not contingent in nature.</p> <p><b>Management threat:</b> PwC is not required to take any decisions on behalf of management as part of this work.</p> <p><b>Advocacy threat:</b> We have not acted for, or alongside, management and have therefore concluded that this work does not pose an advocacy threat.</p> <p><b>Familiarity threat:</b> Neither the audit engagement leader nor any member of the audit team were involved in this work.</p> <p><b>Intimidation threat:</b> We have concluded that this work does not pose an intimidation threat as we have not experienced any undue pressure from officers or councillors and the work will be conducted in accordance with advised agreed upon protocols, and there is no need for judgement. All findings are reported to management, and no process improvement recommendations are made.</p>
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### *Fees*

The analysis of our audit fees for the year ended 31 March 2014 is included on page 27 and our non-audit fees above. In relation to the non-audit services provided, none included contingent fee arrangements.

### *Services to Directors and Senior Management*

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

### *Rotation*

It is the Audit Commission's policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

### *Gifts and hospitality*

We have not identified any significant gifts or hospitality provided to, or received from, a member of Council's Cabinet, senior management or staff.

*You are required to produce an Annual Governance Statement (AGS). We reviewed your AGS and found no areas of concern to report.*

*As part of our value for money work we reviewed your Medium Term Financial Strategy.*

*Our detailed findings will be reported to you in a separate report on Financial Resilience. We have summarised our findings on the following pages.*

### *Conclusion*

**We hereby confirm that in our professional judgement, as at the date of this document:**

- **we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and**
- **our objectivity is not compromised.**

**We ask the Audit Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.**

### *Annual Governance Statement*

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: “Delivering Good Governance in Local Government”. The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE “Delivering Good Governance in Local Government” framework and whether it is misleading or inconsistent with other information known to us from our audit work.

**We found no areas of concern to report in this context.**

### *Economy, efficiency and effectiveness*

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

**We anticipate issuing an unqualified value for money conclusion.**

In our planning risk assessment we identified that although the Council had proper arrangements for challenging how it secures economy, efficiency and effectiveness and for securing financial resilience in the previous year we did identify a number of concerns and risks relating to the Council’s ability to continue to demonstrate financial resilience. We therefore developed a detailed programme of work that placed greater emphasis on addressing the financial resilience criterion.

We have prepared a more detailed report on Financial Resilience for the Strategic Director Delivery which we intend to present to this Committee in the September 2014 meeting. The 'conclusions' section of the report is set out below.

### ***Financial Resilience conclusions***

- **There are adequate Financial Planning, Governance and Control arrangements in place to secure financial resilience.**
- **We have not identified any material uncertainties relating to events and conditions that may cast significant doubt on the Council's ability to continue to operate for the foreseeable future.**
- **The use of the going concern assumption is appropriate in the preparation and presentation of the financial statements.**
- **The Council's systems and processes for managing effectively its financial risks , and to secure a stable financial position, appear to be operating adequately and have put the Council in a position to set a balanced budget for 2014/15 and are well placed to set a balanced budget for 2015/16.**
- **The longer term financial challenge has reduced significantly over the year due to pro-active financial planning and effective collaboration between Officers and Councillors through new and existing governance arrangements. Whilst there remains a budget gap in the later years of the MTFS this has reduced significantly to less than £30m from £123m at the start of 2014 and the Council has a plan and a process to continue to identify further savings.**
- **We intend to issue an unqualified opinion on your VFM conclusion.**

This view is informed by the Council's processes, financial position and further opportunities although the Council's financial resilience remains at risk if not managed effectively.

#### *Processes:*

We have considered the Council's track record in:

- setting realistic budgets;
- delivering services within budget;
- delivering planned saving targets; and
- maintaining adequate levels of reserve balances.

You have been through a thorough risk assessment process using thematic review and consideration of statutory and discretionary services to identify a significant number of saving delivery plans to support the majority of the gap identified by the MTFS.

You have produced a sound MTFS with appropriate assumptions and have updated the details behind it in year so that by October 2014 you will have identified a significant proportion of the savings required by the MTFS.  
You have a track record of historical performance that delivers against savings plans.

You have a plan set out to deliver a balanced budget through due process and consultation, before the commencement of the financial year.

You have a plan to undertake appropriate consultation, identifying further savings plans and integration with key stakeholders to deliver a budget plan for the two years 2015/16 and 2016/17.

Effective collaborative working between Officers and Councillors has ensured that there is a broad consensus about the need for change and there is a growing body of tangible evidence of Councillors considering previously unpalatable options.

Arrangements are in place to produce detailed balanced budgets and savings plans and undertake robust review during the year at management and Cabinet, and act quickly to resolve budgetary gaps.

*Financial position:*

The Council has:

- a strong net asset position of £398 million (pre-audit);
- demonstrated a continued ability to generate strong operating cash flows;
- a positive cash balance at year end of £4.1 million (pre-audit) and sufficient funds to meet forecast demand over the year;
- a reasonable level of reserves (general and earmarked) when compared with similar authorities;
- a generally good track record in recording surpluses and achieving financial targets, having identified savings totalling significantly over £100 million over the last five financial years and demonstrating solid financial management in achieving this;
- a strong 30-year HRA Business Plan that is not expected to draw on general fund reserves;
- a balance of £5.5m in the Efficiency Reserve;
- agreed a strategy to identify £25 million of savings for 2015/16 by October 2014 plus a further £35 million for the medium term period;
- delivered £7.6 million of the 2014/15 savings target of £21.4 million with a further £13.4 million having been estimated with a high or medium level of confidence and with acceleration and identification of 2014/15 savings proposals equating to £1.7 million; and

- a forecast outturn for 2014/15 of within 0.25% of the general fund budget requirement (£0.6 million) at the time of drafting this report.

*Further opportunities:*

Significant uncertainties exist in the current climate and there remain risks associated with changes in government funding and the budget consultation process. It is important therefore that the Council has other options available to it to secure financial resilience, beyond those that are currently being considered. Should the planned savings not materialise the Council could consider options including:

- 1) The ability to borrow: Under section 3(1) of the Local Government Act 2003, the Council must approve an overall borrowing limit before the beginning of each financial year. The Council is within this limit so may conclude that it has the opportunity to borrow to cover budgetary shortfalls in the short term.
- 2) The Council had opening cash reserves, General Fund reserves of £27m and earmarked reserves of £27.6m. These reserves could be used in the short term to mitigate any budgetary gaps.
- 3) The Council has developed a disposal programme which offers a significant opportunity to secure capital receipts in coming years.
- 4) The Council has historically evidenced an ability to identify other savings opportunities to negate budgetary gaps identified during the year, caused by schemes that have not delivered.

Given the above, there are alternative arrangements in place to negate against some short term budgetary shortfalls against the Council's plans. This provides further information that there are suitable arrangements in place regarding securing economy, efficiency and effectiveness with regards to financial resilience.

*Risks remaining:*

Despite being able to conclude satisfactorily that the Council's going concern assumption is appropriate and that we do not require a revision to our value for money conclusion, our work on financial standing has identified a number of areas of concern that put the Council's financial resilience at risk if not managed effectively.

To continue to demonstrate that the Council has sufficient resources available to meet its commitments in the short term it is important that the Council:

- Focuses on translating the £10.4 million of 2014/15 savings that are estimated with a high level of confidence and the £3 million of medium level savings into realised, measurable savings and continues to identify opportunities to deliver the remaining £0.4 million from the initial savings target. Where savings are not likely to be met these expected variances should be reported to Councillors.
- Continues to monitor and report achievement of savings against target by scheme and not just report either exceptions or, has been the case at times historically, achievement of savings by Service or Directorate with no reference to the individual savings schemes approved by Councillors.

- Continues to identify one-off savings during 2014/15 or bring forward future savings scheme to address the currently projected over spend in, and reduce the call on, the General Fund.
- Ensures that the cost pressures in Looked After Children are actively monitored and variances are reported early and accurately.
- Continues to develop robust and granular plans to ensure the delivery of the £25 million savings plans required to set a balanced budget in 2015/16. The more detailed these plans and the more accountability can be allocated the more likely it is that savings will materialise.
- Quantifies the remaining savings target for the period of the MTFS. The latest reported estimate was £35m but events have been identified that could affect the budget gap in the MTFS both positively or negatively. Once Councillors have been provided with information on the scale of the challenge, a plan must be finalised to set out how further savings will be identified and over what time period. We understand that advice has been received to tackle the 2016-2019 savings element in stages and this seems reasonable, but the plan to meet these stages must be clear and robust.
- Continues to take a radical approach to service provision. Future reductions to local government funding above and beyond those already known about are conceivable; a significant proportion of the savings remain politically sensitive and may experience difficulties at consultation stage. It would be advisable to identify and approve savings that exceed the known savings target to allow for removal of schemes, slippage and unforeseen costs relating to demand.
- Keeps its assumptions and estimates under review. Councils have an overarching responsibility to make prudent estimates but the Council should continue to ensure that estimates are appropriate and that pockets of contingency do not exist.



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# Internal controls

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice.

As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

## Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

## Reporting requirements

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

One significant deficiency in internal control was identified through our work which is detailed below. There were no other matters that, in our professional judgement, we believe we should bring to your attention.

## Summary of significant internal control deficiencies

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### Deficiency

### Recommendation

#### *Maintenance of up to date and accurate base data records for property valuations*

Land values are determined in accordance with site acreage and where buildings are of a specialised nature and fair value is based on depreciated replacement cost values are calculated based on gross internal floor areas. Accordingly, it is important that this data is complete and accurate at each balance sheet date.

Consistent with our finding in the previous financial year the underlying data is not always accurate which may result in over- or under-statement of the balance sheet. This is particularly relevant to schools, because work is regularly being carried out that changes the size of the buildings, but the issue applies to all asset types.

There is a need for the property and asset management teams to carry out a data validation exercise before every valuation and again at the end of the financial year to ensure that any increases or reductions in and land or building size are recorded on a timely basis.

This may require consultation with other relevant departments within the Council who hold up to date information on the Council's assets.

**We understand that management has put in place a new control system as a result of our findings.**

# Risk of fraud

*We ask that the Audit Committee, as those charged with governance, confirm to us that there are no additional matters relating to fraud that should be brought to our attention.*

*As part of work to address the risk of fraud, we use auditing techniques to select journal entries which we believe have a greater risk of containing fraud or error.*

*We identified no issues to report to you as part of this work.*

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

## Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

During the year the Council has informed us of a small number of matters of actual and/or potential fraud which have been investigated by Internal Audit. We have considered these matters and the course of action taken in response to them by the Council and have identified no issues or concerns to report in this context.

## Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and

- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

## Responsibility of the Audit Committee

Your responsibility as part of your governance role is:


- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

## Your views on fraud

In our audit plan presented to the Audit Committee in March 2014 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.



We included two fraud related risks in our audit plan. These risks along with our findings in these areas are set out earlier in this report in the Audit Approach section.

**We identified no issues to report to you in relation to our fraud considerations.**

# Fees update

Our fee proposals were included in our 2013/14 Audit Plan which we reported to you in March 2014.

The table here provides and update to those fee proposals.

## Fees update for 2013/14

We reported our fee proposals in our plan in March 2014. Our anticipated final fees are as follows:

	2013/14 outturn (£)	2013/14 fee proposal (£)
<b>Audit work performed under the Code of Audit Practice</b>	251,100	251,100
- Statement of Accounts		
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources		
- Whole of Government Accounts		
<b>Pension Fund audit work</b>	48,618	48,618
<b>Certification of Claims and Returns - Note 1</b>	44,200	44,200
<b>Sub – Total Audit Code Work</b>	<b>343,918</b>	<b>343,918</b>
Additional local risk based audit work – Note 2	34,000	34,000
Non-audit services – Note 3	90,875	83,000
<b>Total Fees</b>	<b>468,793</b>	<b>460,918</b>

Note 1 - Our fee for certification of grants and claims is yet to be finalised for 2013/14 and will be reported to those charged with governance in December 2014 within the Certification Report to Management in relation to 2013/14 grants.

Note 2 – As part of our 2013/14 audit planning process we tailored a programme of audit work in response to the additional local audit risks relevant to this Council for the period in question. As set out in our audit plan additional fees required to cover the additional work covering:

- Property, Plant and Equipment Valuation
- Equal Pay
- Savings Plans and financial resilience

- System changes and redesign
- Accounting policy changes

We are in the process of seeking approval from the Audit Commission for these fees and we expect to be able to advise you of the final fee in our Annual Audit Letter.

Note 3 - In addition to the statutory services provided as your Appointed Auditor, PwC has, during the year, provided non-audit services which fell outside of the Code of Audit Practice. These services, and the associated fees (excluding VAT), are detailed in the non-audit fees section above on pages 16 to 18.

# *Appendices*

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## ***Appendix 1: Letter of representation***

There are a number of matters on which we are required to ask for a written representation. A draft letter of representation is included in this appendix:

PricewaterhouseCoopers LLP  
Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

Dear Sirs

### **Representation letter – audit of Wolverhampton City Council’s (the Council) statement of accounts for the year ended 31 March 2014**

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Council give a true and fair view of the affairs of the Council as at 31 March 2014 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14.

I acknowledge my responsibilities as the Assistant Director Finance (Section 151 officer) for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the Council and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and councillors of the Council with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

### ***Statement of Accounts***

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14; in particular the Statement of Accounts give a true and fair view in accordance therewith.
- All transactions relating to the 2013/14 financial year have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Council in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 requires adjustment or disclosure have been adjusted or disclosed.

### ***Information Provided***

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the Council's auditors, are aware of that information.
- I have provided you with:
  - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Council and its committees, and relevant management meetings;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

### ***Accounting policies***

I confirm that I have reviewed the Council's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the Council's particular circumstances.

### ***Fraud and non-compliance with laws and regulations***

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:



- The results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- All information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the Statement of Accounts.
- All information in relation to allegations of fraud, or suspected fraud, affecting the Council's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- All known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Council conducts its business and which are central to the Council's ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving councillors, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

The pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

### ***Related party transactions***

I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All transfer of resources, services or obligations between the Council and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

### ***Employee Benefits***

I confirm that we have made you aware of all employee benefit schemes in which employees of the Council participate.

### ***Contractual arrangements/agreements***

All contractual arrangements (including side-letters to agreements) entered into by the Council have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

### ***Litigation and claims***

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

### ***Taxation***

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Council queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the Council's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the Council or any associated company for whose taxation liabilities the Council may be responsible.

### ***Pension fund assets and liabilities***

All known assets and liabilities including contingent liabilities, as at the 31 March 2014, have been taken into account or referred to in the Statement of Accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2014 have been properly valued and that valuation incorporated into the Statement of Accounts.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the Statement of Accounts have been disclosed to you.

### ***Pension fund registered status***

I confirm that the West Midlands Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

### ***Provisions***

Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the financial statements and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the Council's and the group's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the financial statements.

The provision of £18.7 million that we have included in our accounts for the potential liability for equal pay and back pay claims complies with International Accounting Standard (IAS) 37 and is supported, in good faith, by the external legal advice received.

This represents our best estimate of the most likely future costs to the Council and we have not received any other additional or contradictory advice that has not been shared with you.

The Council has determined a proper application of the statutory provisions for the neutralisation of the impact of Single Status provisions on the General Fund balance.

I confirm the Council has used appropriate measurement processes, including related assumptions, in determining the accounting estimate for the provision for business rates appeals in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) and disclosures related to this provision are complete and appropriate under the Code.

### ***Bank accounts***

I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

### ***Assets and liabilities***

- The Council has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.
- The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets, except for those that are disclosed in the Statement of Accounts.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

### ***Investments***

I confirm that all significant assumptions made in relation to fair value measurement and disclosures are reasonable and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council and the group to the fair value measurements or disclosures.

I confirm that we believe the inclusion of the Council's investment in Birmingham Airport Holdings Ltd at £18.6 million is appropriate because:

- this materially reflects the latest valuation of the Ordinary Shares and preference shares provided as at the balance sheet date as provided by Solihull Council and BDO
- there remains in place a side agreement which restricts the sale of shares by all seven stake-holding councils and therefore, whilst the valuation given provides a best estimate of a price that could be achieved on the open market, the restrictions mean that the open market value (OMV) is always likely to overstate the value that any Council would actually be willing to pay. This is deemed particularly significant in the current economic climate when there is unlikely to be any Council with sufficient spare resources to purchase an additional share in the Airport - especially at an OMV;
- the terms of the work had been reviewed by all relevant Appointed Auditors;
- the methods followed are reasonable given the requirements of the Code; and

- the findings are fed by a number of factors and because many of these are judgements, every valuer is bound to make different assumptions but the assumptions taken do not appear unreasonable.

### ***Financial Instruments***

- All embedded derivatives have been identified and appropriately accounted for under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
- Where hedging relationships have been designated as either firm commitments or highly probable forecast transactions, I confirm that our plans and intentions are such that these relationships qualify as genuine hedge arrangements.
- Where fair values have been assigned to financial instruments, I confirm that the valuation techniques, the inputs to those techniques and assumptions that have been made are appropriate and reflect market conditions at the balance sheet date, and are in line with the business environment in which we operate.

### ***Using the work of experts***

I agree with the findings of Solihull Council and BDO experts in evaluating the Airport Valuation, regarding their valuation of our share of Birmingham Airport Holdings Ltd and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The Council did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

I also agree with the findings of Neil Benn, expert in evaluating the business rates appeals provision and have adequately considered the competence and capabilities of the expert in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The Council did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the expert.

### ***Valuation of Property, Plant and Equipment***

I have considered indicators of impairment for our Property, Plant and Equipment asset base since the date of the most recent valuation and am satisfied that there are no indicators that the Council's asset base has been materially impaired.

I am satisfied that the gross internal floor areas and land acreage supplied to our internal valuation experts is complete, materially accurate and up to date.

### ***Depreciation of housing stock***

The Council has assessed the impact of using the Major Repairs Allowance as an estimate for depreciation of council dwellings in the Housing Revenue Account and is satisfied that this amount is a reasonable estimate of the amount of depreciation charge for these assets.

***Completeness of Fixed Asset records on the General Ledger***

I am satisfied that the general ledger system is complete and that there are no material differences between the assets recorded on the Property Services Database and those recorded on the general ledger system (FMIS), that is used to populate the financial statements.

***Minimum Revenue Provision (MRP)***

I am satisfied that the methods we applied to determine an annual revenue provision, and for splitting interest cost between the HRA and General Fund are appropriate, prudent and compliant with the requirements of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended by Statutory Instrument 2008 no. 414 s4).

***Deficiencies in internal control***

I have communicated to you all deficiencies in internal control of which I am aware.

***Subsequent events***

Other than those already disclosed, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

***Accounting for Academy Schools***

All schools that have transferred to Academy status have been removed from the appropriate balance sheet. All current school assets for which the future use is unknown have been valued at the most appropriate market value. No decisions have been taken about the future use of school assets that have not been reflected in their valuation.

As minuted by the Council at its Audit Committee meeting on 22 September 2014

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Assistant Director Finance (Section 151 Officer)

For and on behalf of Wolverhampton City Council

Date .....

## Appendix – Related Parties

In addition to the disclosed related party transactions within Note 8 to the 2013/14 Statement of Accounts, I confirm that the following is a complete list of the Authority's related parties:

- Base 25
- Gazebo Theatre in Education
- Wolverhampton Network Consortium
- Local Information United Ltd
- Kingswood Trust
- The City of Wolverhampton Regenerating Buildings Preservation Trust
- WV One (Wolverhampton) Ltd.
- B C S Associates Limited
- Black Country Care Services Limited
- Friends of Bilston North (dissolved 25/02/2014)
- Wolverhampton Network Consortium
- Sewa Centre Ltd.
- Central Learning Partnership Trust
- The Black Country Living Museum Trust
- Wolverhampton Community Radio Training
- Ujama Limited
- Richmere Court Residents
- Woodthorne Builders Limited
- Local Government Association (Improvement & Development Agency IDEA)
- National Trust
- Association of Local Democracy Agencies (ALDA)
- West Midlands Concert Band
- English Heritage
- Association of Teachers and Lecturers (ATL) Union
- Abbey National Group Pension Fund
- Alstom Transport
- AMA Training Services
- Association of Black Country Authorities (ABCA)
- Association of Labour Councillors
- Bilston Craft Gallery Textile Group
- Birmingham Art Circle
- Black Country Consortium

- Bridgnorth Aluminium Ltd
- Care in Bathing Ltd
- Confederation of Passenger Transport
- Community Trade Union
- Complete Sound Services Ltd
- Conservative Party
- Co-operative Party
- De Montfort University
- Diocese of Lichfield
- Envy Us
- Ettingshall Ward Labour Party
- Gambling Commission
- GMB Union
- Goldthorn Primary School
- Green Issues Communique
- H S Bagri
- Heritage Centre
- Institute of Advanced Motorists
- JSB Properties
- Labour Party
- Land Rover
- Low Hill Labour Party
- Midlands Textile Forum
- Money Advice Service
- National Express
- Northwood Primary School
- Oxley Labour Party
- Parliamentary Advisory Council for Transport Safety (PACTS)
- Penn and Merry Hill LNP
- Phil Bateman Consultancy
- PSU Designs Ltd
- Quattro Group (UK) Ltd
- Royal Birmingham Society of Artists
- Soroptimist International (Freemasons)
- St Peter's Ward Labour Party
- TFML (Education & Management Consultancy)
- Tettenhal Wightwick Conservative Association
- Textile Society
- Thorpe Thompson



- Unite Union
- Unison
- Wednesfield North Labour Party
- West Midlands Joint Committee
- West Midlands Planning and Transportation Committee
- West Midlands Police and Crime Panel
- West Midlands Road Safety Partnership (Road Safety GB formerly LARSOA)
- Wolverhampton Conservative Association
- Wolverhampton Economy Partnership
- Wolverhampton Executive Partnership Board
- Wolverhampton Labour Group
- Wolverhampton South East Labour Party
- Wolverhampton South East Liberal Democrats
- Woodthorne Builders Ltd



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