

# *Wolverhampton City Council*

*Annual Audit Letter*

2013/14

Government and  
Public Sector

October 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.*

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# Introduction

## The purpose of this letter

This letter summarises the results of our 2013/14 audit work for members of the Council.

We have already reported the detailed findings from our audit work to the Audit Committee in the following reports:

- External Audit Progress Report 2013/14 (June 2014);
- Audit opinion for the 2013/14 financial statements, incorporating opinion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources (September 2014);
- Report to those charged with Governance (ISA (UK&I) 260) (September 2014); and
- Annual Certification Report (to those charged with governance) (March 2014).

We also issued a Financial Resilience Report in September 2014 to the Strategic Director Delivery.

The matters reported here are the most significant for the Authority.

## Scope of Work

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As an administering Authority of a pension fund, the Authority is also responsible for preparing and publishing Accounting Statements for the West Midlands Pension Fund.

Wolverhampton City Council

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

We met our responsibilities as follows:

Audit Responsibility	Results
<i>Perform an audit of the accounts and pension fund accounting statements in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&amp;I)).</i>	We issued an unqualified audit report on your financial statements (including those of the pension fund).  Key points from our audit of the accounts can be found in the section 'Audit Findings'.
<i>Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.</i>	We had no concerns to report as part of this work and concluded that your submission was consistent with the financial statements.

Audit Responsibility	Results
<i>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</i>	We issued an unqualified value for money conclusion on your arrangements for securing adequate Use of Resources.  Key points from our work in this area can be found in the section 'Audit Findings'.
<i>Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</i>	We identified no concerns with the content of your Annual Governance Statement, and found it to be compliant with relevant guidance.
<i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i>	We identified no matters that would require us to issue a public interest report.

Audit Responsibility	Results
<i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i>	We identified no matters that would require any other action to be taken in respect of our responsibilities here.
<i>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</i>	We have issued our completion certificate and have no relevant matters to report.
<i>Issue a report noting whether or not the pension fund financial statements in the pension fund annual report and accounts are consistent with those in the authority's statement of accounts.</i>	We have issued an unqualified opinion in respect of the pension fund annual report.

The next section of this report sets out how we have met our responsibilities during the course of the audit and what our key findings were.

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# Audit Findings

## Accounts

We audited the Council's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 30 September 2014.

Key points to bring to your attention are as follows:

- The draft accounts (including pension fund) were submitted to us ahead by the 30 June deadline and were of a good quality.
- Key members of staff were available from day one of the audit and responded promptly to our audit questions and requests for information.
- Working papers were ready at the start of the audit and we had already been able to select samples of transactions for audit testing.
- Significant areas of focus this year included:
  - Ensuring that revised valuations of Council land and buildings were based on accurate data;
  - Confirming the adequacy of the Provision for Equal Pay; and
  - Considering the financial standing of the Council over the medium term.
- We identified a number of small differences in the actual size of Council properties to the size used by the Valuer in order to determine valuations. These were trivial and so the accounts were not amended but because the records of land and buildings areas which underpin your

valuations are not always accurate we did report this as an internal control weakness to the Audit Committee.

- We did not identify any further significant control deficiencies.
- We reviewed the reasonableness of the assumptions underlying the pension liability and concluded that we were comfortable with the assumptions adopted.
- From 2013/14 there have been changes to the accounting for defined benefit schemes and termination benefits. These changes were reflected in the financial statements. We are satisfied that this has been accounted for appropriately.
- We identified no material errors and there were no uncorrected misstatements. Trivial disclosure amendments were corrected by management; these did not impact on the draft reported General Fund outturn or on the cash position of the Council.
- We identified no material misstatements in the draft Pension Fund accounts.

## Financial standing

There were no material uncertainties related to events and conditions that may cast significant doubt on your ability to continue as a going concern and there are sufficient resources available to meet your commitments for at least a 12-month period after the date of our audit opinion. We concluded the use of the going concern assumption was appropriate. However, we stressed our concerns over your medium term financial standing, noting the extent of the

financial challenge that remains, despite significant advances this year. We have provided further comment on this in the 'use of resources' section below.

### *Accounting systems and systems of internal control*

The Council is 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. We review these arrangements for the purposes of our audit of the financial statements and our review of the Annual Governance Statement. We identified one significant deficiency in internal control as described above.

### *Annual Governance Statement*

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

### *Use of Resources*

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether you had in place, for 2013/14, proper arrangements to secure economy, efficiency and effectiveness in your use of the Authority's resources.

In line with Audit Commission requirements, our conclusion was based on your arrangements for:

- securing financial resilience; and

- challenging how the Council secures economy, efficiency and effectiveness.

To reach our conclusion, we carried out a schedule of work that was based on our risk assessment.

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. The scope of this work covered:

- Budgetary control
- Taking a radical approach to service provision
- Information for decision making
- Managing the financial impact of the redundancy programme
- Assumptions in the MTFS
- In-year reporting updates
- Changes to MRP
- Other financial estimates and provisions
- Robustness of savings plans
- Whether an Advisory notice was required

As part of this programme of work we have issued to the Strategic Director Delivery a detailed report on Financial Resilience which we shared with the Audit Committee in the September 2014 meeting.

***We issued an unqualified conclusion in respect of the two criteria above.***

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 2014/15 target savings into realised, measurable savings. 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.
- 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 savings plans required to set a balanced budget in 2015/16.
- Quantifies the remaining savings target for the period of the MTFs. 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.

## *Whole of Government Accounts*

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted by the 3 October deadline. We found no areas of concern to report as part of this work and concluded that it was consistent with the financial statements.

## *Summary of recommendations*

During the course of our audit work we have made recommendations to the Council. These have been discussed and agreed with management.

## *Certification of Claims and Returns*

We presented our most recent Annual Certification Report for 2012/13 to those charged with governance in March 2013.

For the period ended 31 March 2013 we certified seven claims and returns worth a final aggregate net total of £244,115,210. Of these, three were amended following certification work undertaken and four required qualification letters to set out matters arising from the certification of the claim or return. Four claims/returns required qualification letters to set out matters arising from the certification of the claim/return. Three of the claims/returns were amended following the certification work undertaken.

## *Other responsibilities*

We are required to determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act. This includes a requirement to consider whether, in the public interest, we should make a report on any matter coming to their notice in the course of the audit. There were no issues to report in this regard.

## *Other matters reported to those charged with governance*

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*

<i>Deficiency</i>	<i>Recommendation</i>
<p><b><i>Maintenance of up to date and accurate base data records for property valuations</i></b></p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>This may require consultation with other relevant departments within the Council who hold up to date information on the Council's assets.</p> <p><b>We understand that management has put in place a new control system as a result of our findings.</b></p>



# Final Fees

## Final Fees for 2013/14

We reported our original fee proposals in our audit plan to the Audit in March 2014.

We are currently in the process of agreeing the fee over and above the scale element with the Audit Commission and will report the final position in due course. The table below summarises our fee proposal and the latest estimated fee outturn (excluding VAT):

	2013/14 outturn	2013/14 fee proposal
Audit work performed under the Code of Audit Practice	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		
Additional local risk based audit work (Note 1)	40,011	34,000
Pension Fund audit work	48,618	48,618
Certification of Claims and Returns (Note 2)	44,200	44,200
<b>Sub-Total Audit Code Work</b>	<b>383,929</b>	<b>377,918</b>
Non-audit work (Note 3)	90,875	83,000
<b>TOTAL</b>	<b>474,804</b>	<b>460,918</b>

Note 1 – 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 have sought approval from the Audit Commission for a £40,011 variation from scale fee. £27,987 of additional fee has already been approved but we are awaiting a final response regarding the final element of these fees and we expect to be able to advise you of the final fee shortly.

Note 2: Our fee for certification of claims and returns is yet to be finalised for 2013/14 and will be reported to those charged with governance in March 2015 within the Certification Report to Management in relation to 2013/14 grants.

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), were:

- Certification of the Decent Homes backlog grant. The fee for this work was £2,500
- Critical Friend support and assistance in developing the FutureSpace Final Business Case. The fee for this work was £61,662.
- Two stage gate reviews for the 'Future Works' programme. The fee for this work was £23,713.
- Access to the PwC Tax helpline. The fee for this work was £3,000.

We confirm to you that we have appropriate safeguards in place to maintain our audit independence and reported these to the Audit Committee in September 2014. We have maintained our independence since that date.



In the event that, pursuant to a request which Wolverhampton City Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Wolverhampton City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Wolverhampton City Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Wolverhampton City discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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