

The Annual Audit Letter for City of Wolverhampton Council

Year ended 31 March 2020

9 April 2021

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at City of Wolverhampton Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Risk Committee as those charged with governance in our Audit Findings Report on 26 November 2020.

Respective responsibilities

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

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

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

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £12,500,000, which is approximately 1.5% of the group's gross cost of services.
Financial Statements opinion	<p>We gave an unqualified opinion on the group's financial statements on 30 November 2020.</p> <p>We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and investment properties and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.</p>
Whole of Government Accounts (WGA)	On 6 May we completed our work on the Council's consolidation return following guidance issued by the NAO. The work has been protracted due to technical issues with the Government's central system (OSCAR), which meant the Council were unable to provide a full "cycle 2 auditor's report" as required until 9 March. Details of our findings are included on page 15.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 November 2020.

Certificate We certified that we have completed the audit of the financial statements of City of Wolverhampton Council on 6 May 2021 upon completion of the WGA work.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic had a significant impact on the normal operations of the group and Council, such as administration of grants to businesses, closure of schools and car parks with additional challenges of reopening services under new government guidelines as well as redeployment of staff to work on all of the above. As a key body in the frontline response to the pandemic, the Council has worked closely with key partners to provide support to businesses, support to individuals, and reassign staff to areas of need.

The Council has since engaged with local people to develop a plan aimed at helping Wolverhampton recover from the impact of the pandemic: *Relighting Our City of Wolverhampton Council Recovery Commitment*.

The Council sensibly undertook a trial run ahead of lockdown being announced to ensure that its systems were able to function remotely, which enabled teething problems in terms of access to systems to be worked through.

Despite the significant impact authorities were nevertheless required to prepare financial statements as normal with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.

Restrictions for non-essential travel meant both Council and audit staff conducting the audit on a wholly remote basis. This necessitated greater reliance on technology than usual for these remote working arrangements eg video calling, physical verification of assets and completeness accuracy of information produced by the entity.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
May 2021

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the group financial statements to be £12,500,000, which is approximately 1.5% of the group's gross cost of services. We determined materiality for the audit of the Council's financial statements to be £12,400,000, which is approximately 1.5% of the Council's gross cost of services. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality of £625,000 and £620,000 for the group and Council respectively, above which we reported errors to the Audit and Risk Committee in our Audit Findings Report.

We also set a lower level of specific materiality of £40k for senior officers remuneration as we considered the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to a reader of the accounts.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected circumstances to have an impact on the production and audit of the financial statements for the year ended 31 March 2020, included and not limited to:</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties potentially impacting on the quality and timing of the production of the financial statements, and the evidence we could obtain through physical observation • Volatility of financial and property markets increasing the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we could obtain to corroborate management estimates • Financial uncertainty requiring management to reconsider financial forecasts supporting their going concern assessment on whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements required significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. 	<p>We worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations.</p> <p>We liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. We have evaluated:</p> <ul style="list-style-type: none"> • the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • whether sufficient audit evidence could be obtained through remote technology; • whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • engaged the use of auditor experts in respect of Property, Plant & Equipment (PP&E) valuations – refer to pages 7 and 8 for further detail on this work. 	<p>Our audit work has not identified any specific issues in respect of Covid-19. However,</p> <ul style="list-style-type: none"> • In their reports, the Council's internal and external valuers confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. • Similarly, the West Midlands Pension Fund has included a material valuation uncertainty disclosure in relation to its property funds which form part of the pension scheme assets as a result of Covid-19. <p>As a result we have included Emphasis of Matters paragraphs highlighting these matters within our auditor's report. These do not affect our opinion that the statements give a true and fair view of the Council's financial position and the income and expenditure for the year but are added to indicate a matter which is disclosed appropriately but which we consider is fundamental to a readers' understanding of the financial statements.</p> <p>The Council also updated its disclosure of post balance sheet events, to include information relating to funding received since 1 April 2020 and other significant events.</p>

Audit of the Financial Statements

Significant Audit Risks (continued)

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings and investment properties</p> <p>Council Housing £838.7m Land and Buildings – Other £429.4m Investment Properties £33.9m</p> <p>The Authority revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of valuers to estimate the current value as at 31 March 2020.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>We do not consider this risk to apply to the other components within the group as neither Wolverhampton Homes Limited or City of Wolverhampton Housing Company Limited has land and buildings, which it carries as property, plant and equipment.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work, which has included the use of our own value to assist with our review and challenge evaluated the competence, capabilities and objectivity of the valuation experts written to the valuers to confirm the basis on which the valuations were carried out tested on a sample basis revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial Statements 	<p>We have no concerns over the competence, capabilities and objectivity of the internal and external valuation experts used by the Council.</p> <p>Our challenge identified that:</p> <ul style="list-style-type: none"> the Council's valuer had provided an incorrect valuation for one of the Council's schools in the previous year due to a spreadsheet error. The carrying value of this asset was revised upwards by £7,707k. capital expenditure on a building had not been taken into account in its revaluation. As a result the valuation of this asset was increased by £648k. the valuation report for Council Housing did not reflect additions and disposals made during the year. The value of these assets was subsequently adjusted to take account of these movements. there was a significant increase between last year's Council Housing valuation and this from £751m to £838m. The Council was unable to explain the reasons for the increase, predominantly due to the Council having a change in valuer for his financial year. The Council therefore commissioned its new valuers to value the Council Dwellings as at 31 March 2019 and also at 31 March 2018 to assist with its explanations. As a result of this exercise there is a variance of £85,265k as at 31 March 2018 and £69,854k as at 31 March 2019. Given the significant of these differences the accounts have been amended accordingly for this year and as a prior period adjustment.

Audit of the Financial Statements

Significant Audit Risks (continued)

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings and investment properties continued....	continued....	<ul style="list-style-type: none"> an input error occurred within a spreadsheet used to calculate the valuation of the Council housing stock which had an impact of £9,965k. garages had been valued inconsistently between the current year and prior year. This indicated that there was a potential understatement of approximately £3,901k in the prior year, which was not considered to be material and therefore not adjusted. a reconciliation between the valuer's report for Investment Property and the Asset Register has identified one asset which has been incorrectly included within the Other Land and Building category, instead of Investment Property. Other Land and Buildings are therefore overstated by £713k, and Investment Property understated by the same amount. This has not been adjusted on the grounds of materiality. <p>A significant amount of work was undertaken as part of our audit challenge involving a significant amount of time and effort both on our part as well as on the part of the Council's estates team, finance team and valuer. We are aware that the Council is planning an increased amount of its own quality assurance processes for future years such that any errors are identified and resolved prior to the audit process.</p> <p>As noted on page 6, the Council's valuers confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'.</p> <p>We have therefore included an Emphasis of Matter – 'effects of Covid-19 on the valuation of land and buildings' within our Independent auditor's report. This highlights the Council's disclosures to users of the financial statements. Our opinion is not modified in respect of this matter.</p>

Audit of the Financial Statements

Significant Audit Risks (continued)

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>Net pension liability – Council - £624.6m</p> <p>Net pension liability – Group - £658.8m</p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statement.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>The Authority's net pension liability at 31 March 2020 is £624.6m (PY £594.6m). A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>We have compared the assumptions used by the Council's actuary against industry benchmarks. Based on the work performed we are able to conclude that management's assumptions overall are reasonable.</p> <p>There has been a £19m net actuarial gain during 2019/20. The pension fund auditor has included an emphasis of matter in their audit report on the accounts of West Midlands Pension Fund to reflect a material valuation uncertainty given by the valuers on the Pension Fund's Property Investments (as a result of the impact of Covid-19).</p> <p>The Council has made appropriate disclosures explaining this uncertainty, which we have drawn to the reader's attention in our auditor's report by way of an Emphasis of Matter paragraph. Our opinion is not modified in respect of this matter.</p>

Audit of the Financial Statements

Significant Audit Risks (continued)

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>We identified from our review of the journal control environment in previous years that both the Chief Accountant and the Director of Finance had the ability to post journals. From our work during this year's audit we note that journal posting rights for these individuals have now been removed. However, there was a period during the financial year ending 31 March 2020 whereby the ability to post journals still existed. As this does not constitute best practice we engineered our testing to obtain an appropriate level of assurance that this weakness did not give rise to a possible material misstatement. From the testing performed to date we are content that these individuals did not post any journals during the period.</p> <p>From the sample testing of journals we have found that they were appropriate, eligible and valid, and can be agreed to supporting evidence.</p>

Audit of the Financial Statements

Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19</p> <p>General</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates • For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that, quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions. • Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. 	<p>We worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations which ultimately remained the same.</p> <p>We liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose.</p> <p>We have:</p> <ul style="list-style-type: none"> • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. • evaluated whether sufficient audit evidence could be obtained in the absence of physical • verification of assets through remote technology • evaluated whether sufficient audit evidence could be obtained to corroborate significant • management estimates such as asset valuations • evaluated management's assumptions that underpin the revised financial forecasts and • the impact on management's going concern assessment; • engaged the use of auditor experts for high risk estimates such as the Directly Held Property and complex Insurance assets. 	<p>We extended and enhanced audit procedures in areas considered to be particularly at risk, such as Level 3 asset valuations and Directly Held Property as a sub sector of the same. We also enhanced our procedures around Information Produced by the Entity (IPE) to ensure that technology such as screen sharing and video calls were utilised to gain additional assurances over reports produced by the entity where lockdown restrictions meant we could not be physically present or in relation to prime documents where there may have been considered a risk of manipulation.</p> <p>We have no concerns to report in relation to the impact of Covid-19 on the Fund's ability to operate remotely or around IPE. However, we included an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures associated with the Fund's direct property holdings as a result of Covid-19. Our opinion is not modified in this respect.</p>

Audit of the Financial Statements

Pension Fund Significant Audit Risks (continued)

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19 continued....</p> <p>Disputes between oil producing countries causes a further significant deterioration in the value of global equities</p> <p>As at March 2020, loss of investor confidence following the spread of the Covid-19 virus and the fall in global oil prices had caused a significant decrease in the value of global equities. Following our plan issued in March 2020, we subsequently upgraded the risks associated with Covid-19 and wider economic instability to a significant risk.</p>	<p>continued....</p>	
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ide of controls is present in all entities. The Pension Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of controls, in particular journals, management estimates and transactions outside of the course of normal business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determined the criteria for selecting high risk unusual journals tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; evaluated the rationale for any changes in accounting policies, estimates of significant unusual transactions. 	<p>As a result of the pandemic and remote working arrangements, additional scrutiny was applied to IPE (as previously described) and we ensured that journals designed to affect financial performance at year end were included in our sample.</p> <p>We do not have any concerns to report in this area.</p>

Audit of the Financial Statements

Pension Fund Significant Audit Risks (continued)

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The valuation of Level 3 investments is incorrect</p> <p>By their nature Level 3 investment valuations lack observable inputs.</p> <p>These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters.</p> <p>Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair values of these assets.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> evaluated management's processes for valuing Level 3 investments; reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments and ensure that the requirements of the Code are met; independently requested year-end confirmations from investment managers; for a sample of investments, tested the valuation by comparing the value per the General Ledger (typically based on an investor statement as at the reporting date or, in the case of harder to value assets, the latest capital statement available adjusted for known cash movements in the final quarter of the year) to direct confirmation of capital balances from Investment Managers and, where available, latest audited financial statements. completed sample testing of purchases and sales to prime documentation across the period to support our reconciliation of opening and closing balances. <p>In addition to the above procedures, identified in our audit plan, as a result of the impact of the Covid-19 pandemic we varied and enhanced our approach as follows:</p> <ul style="list-style-type: none"> in addition to reviewing control reports and audited financial statements where available, we also requested responses from fund managers around their use of the most appropriate International Private Equity and Venture Capital Valuation (IPEV) [or equivalent] methodology in their valuation books, specifically updated in the light of the most recent guidance available in relation to Covid-19. we also performed an analysis by market sector of the Fund's holdings, with a particular focus on hard to value assets, with a view to identifying any particular asset classes or sectors which we viewed as a particular risk as a result of the economic impact of the pandemic and provided further challenge to the Fund around the valuations of those assets. 	<p>We identified an extrapolated £33m possible overstatement of Net Asset Values in relation to Level 3 investments. This is principally a function of the timing of the production of financial statements and the particular challenges faced in the markets in March 2020; per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash which are then assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the audit date. We would typically expect to see a number of small variances as a result of this, usually netting out to a below trivial (and therefore non reportable) variance. The higher than usual variance is indicative of the wider uncertainty in the markets at the balance sheet date, but is not a material difference and does not indicate any weakness in management's arrangements for estimating investment values at year end. As the figure is an extrapolation it is not possible to adjust for it and management have determined not to undertake additional work to quantify exact differences on the basis that the difference is not material.</p>

Audit of the Financial Statements

Pension Fund Significant Audit Risks (continued)

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of Directly Held Property (Level 3 Investment) (Annual Revaluation)</p> <p>The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£981 million as at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.</p> <p>We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; independently requested year end confirmations from the valuer and supporting documents as relevant from the Fund's property managers; evaluated the competence, capabilities and objectivity of the valuation expert; written to the valuer to confirm the basis on which the valuations were carried out; challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Fund's valuer's report and the assumptions that underpinned the valuation; and in addition to the stated procedures per our audit plan, in response to wider market uncertainty relating to property valuations, we have engaged an auditor's expert (in this case, a firm of RICS qualified surveyors) to perform a detailed review of the methodology and assumptions employed by the valuer. To compliment this we also undertook additional audit procedures to evaluate possible impairment by assessing cash collection rates and ongoing covenant strength. 	<p>Our audit work has not identified any issues in relation to the Fund's valuation of its Direct Property holdings. However, the valuer has included a material uncertainty clause in relation to some of the Fund's direct property holdings to reflect market conditions at the reporting date.</p> <p>We are therefore including an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures within the Fund's financial statements associated with the Fund's direct property as a result of Covid-19.</p> <p>Our opinion is not modified in this respect..</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 30 November 2020.

Preparation of the financial statements

The Council presented us with draft financial statements in June in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to new remote access working arrangements. This has been driven primarily by the use of technology and regular communication between the teams. We have both utilised video calling, screen sharing and other means to the fullest of our ability in order to carry out audit procedures and verify the completeness and accuracy of information.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Risk Committee on 26 November 2020.

In addition to the key audit risks reported above, we identified issues for which recommendations were raised for the Council's management to address for the next financial year. These are included as an appendix to this letter.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in June.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of West Midlands Pension Fund on 30 November 2020. We also reported the key issues from our audit of the pension fund accounts to the Pensions Committee (a sub-group whom we have determined we are required to communicate with) and the Audit & Risk Committee of the City of Wolverhampton Council who we have determined are those charged with governance on 30 September 2020.

In addition to the key audit risks reported above, we identified issues during our audit that we asked management to address for the next financial year. These are included as an appendix to this letter.

Whole of Government Accounts (WGA)

We have completed our work in line with instructions provided by the NAO, as the Council has met the threshold above which, work is required to be performed.

As noted on page 3 the work has been protracted due to technical issues with the Government's central system (OSCAR), which meant the Council were unable to provide a full "cycle 2 auditor's report" as required until 9 March.

We identified as part of our review that an amendment of £7m due to be made between miscellaneous income and miscellaneous expenditure in order that the return matched the accounts and supporting workpapers had not been made. Furthermore it could not be corrected as the cycle 2 report had been inadvertently submitted by the Council as "final" to the WGA.

We therefore reported this difference along with other unadjusted misstatements as reported to you in our Audit Findings Report, to the National Audit Office and HM Treasury as required.

Audit of the Financial Statements

Other statutory powers

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

We have not deployed any of our statutory powers in relation to the year ending 31 March 2020 in respect of City of Wolverhampton Council.

Certificate of closure of the audit

On completion of our work on WGA we were able to certify that we have completed the audit of the financial statements of City of Wolverhampton Council on 6 May 2021.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

As part of our Audit Findings report agreed with the Council in November 2020, we agreed recommendations to address our findings, which are set out on the following pages.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Civic Halls Refurbishment</p> <p>We noted in our 2018/19 VFM conclusion that this has been a difficult and complex project for the Council and that the management arrangement for the Civic Halls were not adequate and that therefore a qualified “except for” value for money conclusion was given. Given the conclusion reached in the prior year, it is therefore considered appropriate to follow this risk up for the 2019/20 to assess the Council’s progress.</p>	<p>As part of our work we have reviewed progress being made in relation to this Civic Halls refurbishment, both from a project management and budgetary point of view, and also assess how the lessons learned are being applied to other capital projects.</p> <p>To aid this latter point we have discussed internal audit’s involvement in the various project and programme boards and are satisfied from our discussions and the supporting documentation supplied that appropriate governance arrangements are in place and that internal audit are supporting from an advisory capacity.</p>	<p>We have concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place.</p> <p>However we noted that there continue to be risks associated with the delivery of this project:</p> <ul style="list-style-type: none"> • The Council needs to ensure that with any value engineering carried out, the project isn’t unrealistically shoe-horned into a budget, as there is a risk that the resulting project is sub-optimal and does not meet the original objectives • The Council needs to continue monitoring and reporting delivery of the project at all levels on a frequent basis to ensure that when problems arise it can be agile in its response.

Value for Money conclusion

Value for Money Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial resilience</p> <p>The Authority has historically managed its finances well, achieving financial targets. The Budget and Medium Term Financial Strategy considered by approved by Full Council in February 2019 identified that the budget for 2019/20 was in balance without the use of general reserves.</p> <p>However, the Medium Term Financial Strategy reviewed as at the time of planning noted that the Council was faced with finding further budget reduction and income generation proposals totalling £19.5 million. The Council therefore needs to maintain focus on delivering its budget in 2019/20 and focussing on savings for 2020/21 and thereafter if it is to remain financially resilient and is able to address the projected future budget deficits.</p>	<p>As part of our work we have reviewed the Council's Medium Term Financial Strategy and financial monitoring reports and assess the assumptions used and savings being achieved.</p>	<p>On the basis of the work performed we have concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place to ensure it plans finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>

Value for Money conclusion

Value for Money Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Strategic Asset Management</p> <p>We reported last year that while we thought arrangements were adequate, the speed of implementation of the Council's Strategic Asset Management Plan was slow. As this remains high on the Council's agenda we will revisit progress against this for 2019/20 through discussion with officers and review of relevant documents.</p>	<p>As part of our work we have reviewed the work carried out since prior year to assess whether the actions have been undertaken and are effective.</p>	<p>On the basis of the work performed, we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for managing and utilising assets effectively to support the delivery of strategic priorities.</p> <p>We noted however that while the arrangements are in place there is limited delivery as at the time we signed our auditor's report. We recommended further action as noted below, which we will follow up as part of our audit in respect of the year ended 31 March 2021:</p> <p>Further action is needed to:</p> <ul style="list-style-type: none"> • dispose of properties that are not needed • manage FM costs within budget • secure better utilisation of buildings by finalising agreements whereby office space is shared with the Council's partners.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	March 2020
Audit Findings Report	November 2020
Annual Audit Letter	April 2021

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	170,210	198,360	189,428
Audit of subsidiary company Wolverhampton Homes Limited	28,285	28,285	N/A
Audit of subsidiary company City of Wolverhampton Housing Company Limited (trading as WV Living)	22,500	22,500	N/A
Audit of subsidiary company Yoo Recruit Limited (not consolidated on grounds of materiality and not therefore not included in auditor's remuneration note)	14,000	14,000	15,000
Audit of Pension Fund	48,636	55,931	48,618
Total fees	283,631	319,076	253,046

* Audit fee variation – City of Wolverhampton Council

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £145,860 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the table overleaf.

** Audit fee variation – West Midlands Pension fund

The change in planned and actual fees represents an additional fee arising of £7,295 to reflect impact as a result of Covid-19.

A. Reports issued and fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage as well as further issues identified during the course of the audit, which have incurred additional fees. **All fee variations are subject to PSAA approval.**

Audit area	£	Rationale for fee variation
Scale fee	145,860	
Raising the bar	5,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This required additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Materiality	4,000	For major audits, of which the Council is one – we reduced the materiality level, reflecting the higher profile of local audit. This entailed increased scoping and sampling.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	3,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation	4,350	We engaged our own audit expert – (Wilks, Head & Eve) and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
PPE Valuation – work of experts	2,500	We engaged our own audit expert – (Wilks, Head & Eve) to support us in our audit of PPE.
IFRS 16 - Leases	2,500	IFRS 16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset and corresponding liability on the balance sheet. Initially this was from from 1 April 2020 but the standard was later delayed. This reflects our initial work on this standard.
Covid-19 time impact	16,000	The most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working. In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming. To reflect the significance of the additional work required we have proposed an uplift to our fees for 2019/20 of circa 15%.
Technical accounting issues	9,250	As noted on page 7, there was a significant increase between last year's Council Housing valuation and this from £751m to £838m and we incurred significant time over and above what would usually be expected to ascertain the reasons for this movement. The Council subsequently obtained additional valuations, which therefore necessitated additional review.
WV Living	5,400	In order to inform our review of the valuation of inventory in the group accounts or the valuation of the loans made by the Council to its subsidiary, City of Wolverhampton housing Company, WV Living, we engaged internal experts to review the company's business plan.
Revised fee	198,360	

A. Reports issued and fees continued

Fees for non-audit services: City of Wolverhampton Council

Service	Fees £
Audit related services	
- Certification of housing capital receipts grant 2018-19	2,750
- Certification of Teachers Pension Return	4,500
- Certification of Housing Benefit Claim	16,000
Non-Audit related services	
- None	-

Non- audit services





- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services listed herewith are consistent with the group's policy on the allotment of non-audit work to your auditor.




Fees for non-audit services: West Midlands Pension Fund

Service	Fees £
Audit related services	
- Provision of IAS 19 to auditors of member employers	£9,250
Non-Audit related services	
- Review of the utilisation of Integrated Transport Authority fund	£5,000



B. Recommendations – City of Wolverhampton Council

Assessment	Issue and risk	Recommendations
 Medium	Annual Governance Statement The Annual Governance Statement is required to set out the governance arrangements in respect of the group, and not just the Council.	We recommend that management keep its group boundary under review and ensure that future Annual Governance Statements include details in respect of all consolidated entities within the group accounts. Management response Agreed – we will keep our group boundary under review and ensure that this is reflected in future Annual Governance Statements and that they include details in respect of all consolidated entities within the group accounts.
 Medium	Related Parties We discussed with officers during planning, the need to revisit the related parties note as it involved over-disclosure thereby leading to the risk that material and pertinent information was being obscured. There are specific criteria set out in the Code at section 3.9.2, which must be met in order for a related party to be defined as such and the preparation of the related parties note needs to have mind to this guidance.	The related parties note in the financial statements has been revised following audit feedback, and we recommend that the Council enhance its closedown procedures to ensure that only related parties meeting the definitions are considered, and only those transactions deemed to be material with such parties are disclosure. Management response Agreed – this has been taken on board.
 Medium	Valuation process A number of amendments were made as a result of our audit findings in this area.	We recommend that the Council increase the amount of its own quality assurance processes for future years to understanding different methodologies and any significant variances in the valuations, such that any errors are identified and resolved prior to the audit process. Management response The Council undertakes a significant amount of quality assurance work throughout the year, however takes on board the need for enhanced scrutiny, particularly when changing valuers with different methodologies.
 Medium	Additions to Council Dwellings and Other Land and Buildings The valuation reports for these assets did not originally reflect capital expenditure made during the year. Our expectation is that the value of such assets recognised on the Balance Sheet is consistent with the valuation as reported by the Council's external valuer and should include the full population of assets as at the balance sheet date, i.e. including any additions purchased in year.	We recommend that in future the Council seek to inform its valuers of any such changes in year to determine the impact of any on the valuation of assets as at the balance sheet date. Management response Whilst the Council's treatment was in accordance with existing accounting policies already in place, we take onboard the requirement to change going forwards.




Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice


B. Recommendations – West Midlands Pension Fund

Assessment	Issue and risk	Recommendations
 Medium	<p>Contributions – use of incorrect employer contributions rate by scheme employers</p> <p>During the audit we noted a number of cases where employers used an incorrect Future Service Rate to calculate employer's contributions. In total, employers had applied a lower FSR rate which amounted to a net £150k overpayment of contributions.</p>	<p>Although the impact identified this year was clearly trivial to the financial statements, we feel that this is a control issue which could have a material impact on smaller employers and has the possibility of larger impacts if issues are encountered at one of the Fund's key employers. We recommend that the Fund look into ways of building in controls into UPM which will notify employers of the error at the point of remittance.</p> <p>Management response</p> <p>The Fund has controls in place to identify and highlight all instances where employers may not have applied the Future Service contribution rate as expected. In many cases, the differences are small and not necessarily as result of applying incorrect rates but due to timing differences or payroll adjustments made by employers. Each instance has to be investigated with tolerances applied to assist in resolution and this can lead to a rolling programme of ongoing work.</p>
 Medium	<p>Contributions – reconciliation between notional and cash value of contributions</p> <p>As a result of the option to pre-pay Future and Past Service Contributions, this now results in frequent, substantial year on year variances on contributions receivable which present a challenge to the auditor in assessing completeness of the population.</p>	<p>We recommend that the Fund enhance procedures around reconciling notional contribution values (based on expected values in real time per actual pensionable pay) to actual cash received.</p> <p>Furthermore, 3rd party confirmations from employers should be enhanced to include cash values as well as expected balances per pensionable pay.</p> <p>Management response</p> <p>Where employers have pre paid Future Service contributions in advance, the Fund accounts for the receipts in full in the month in which they were received. As part of its contributions monitoring process, the Fund calculates contributions due for every employer each subsequent month based on expected employer contribution rate multiplied by actual pensionable salary. For employers who have prepaid, this is a notional value and is not included in the reconciliation of contributions due or in the annual accounts. Monthly cash receipts from such employers are in respect of employee contributions only and are reconciled to the member data submitted by employers.</p> <p>The 3rd party request to employers does require confirmation of cash values and expected balances per pensionable pay. The Fund will liaise with employers who have pre paid contributions to ensure correct completion of the confirmations.</p>




Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

B. Recommendations – West Midlands Pension Fund (continued)

Assessment	Issue and risk	Recommendations
 Best practice	Third party cash balances Audit procedures performed in relation to cash balances identified a small cash balance being held in a Fund bank account (and accounted for using the Fund's General Ledger system) which does not form part of the Fund's financial structure.	<p>We recommend that the Fund sets up a separate bank account and sub ledger accounting system to monitor the cash balance in question.</p> <p>Management response</p> <p>The Fund and City of Wolverhampton Council have completed the application forms required to set up a separate bank account to monitor this balance. The account is expected to be operational from October 2020. Within the Fund's General Ledger system, transactions relating to this balance are allocated to a specific cost centre code to enable monitoring and segregation from Fund transactions. The volume of these transactions is small enough that this structure is a reasonable way to monitor and account for movements on this balance.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

