

City of Wolverhampton Council audit plan

Year ending 31 March 2021

City of Wolverhampton Council
21 June 2021



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Council developments and impact of Covid 19 pandemic

The Council continues to operate in an uncertain and challenging environment due to the global pandemic, balancing service delivery against the impact on the citizens of Wolverhampton, Council staff and their families. Covid has had, and will continue to have a significant financial impact on the Council. It was recognised by the Council in last year's Narrative Report that the direct financial impact on 2019-20 was limited: the Trust's valuer reported a material uncertainty in regards to the valuation of properties as at 31 March 2020 due to the Covid 19 pandemic.

The Council's 2019-20 Annual Report then went on to say that the pandemic would have a significant impact on 2020-21 and future years across a range of Council's services and programmes. For several years the Council has been reported significant medium-term financial challenges and this has been exacerbated by the pandemic: the Council has suffered loss of operational income, and has had to deal with the allocation, distribution and provision of emergency loans and grants at sometimes relatively short notice, while continuing to provide "business as usual" services such as social care and education.

Financial Reporting and Audit

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing. There is a particular focus on estimates in 2020/21 with the introduction of ISA 540 (revised) (see pages 12 and 13 for more detail), and the Council should anticipate greater challenge and audit scrutiny in these areas.

Accounting for grants

The Government has provided a range of financial support packages throughout the COVID-19 pandemic. These include additional funding to support the cost of services or offset other income losses and also grant packages to be paid out to support local businesses. There is nothing new about the accounting treatment for grants, but the Council needs to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) in 2020/21. There are three main considerations:

- 1) Where the funding is to be transferred to other parties, is the Council acting as the principal or as the agent?
- 2) Are there grant conditions outstanding?
- 3) Is the grant a specific or non-specific grant?

We have shared our publication on grant funding considerations with the Council and discussed it with the finance team who are considering the above factors in their rationale and justification for the accounting treatment to be proposed. It is an evolving area that we will need to react to as the audit progresses.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- There were recommendations made in respect of previous audit work, which can be found in our Audit Findings Repots for the year ended 31 March 2020 both in relation to the financial statements as well as in respect of work on arrangements to secure VFM. We will follow up on these recommendations as part of our work for this year.
- We will continue to provide you with sector updates via our Audit and Risk Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control, refer to page 8.
- The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements due to the size of the numbers involved (£615 million in the balance sheet) and the sensitivity of the estimate to changes in key assumptions. We identified a significant risk in regards to the valuation of the pension fund net liability – refer to page 8.
- The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid 19 pandemic and we expect significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties – refer to page 9.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of the City of Wolverhampton Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Risk Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Risk Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of those subsidiaries it considers material. These are:

- Wolverhampton Homes Limited
- City of Wolverhampton Housing Company Limited (trading as WV Living)

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- presumed risk of management override of controls
- the valuation of property, plant and equipment
- The valuation of the pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £12m (PY £12.5m) for the group and £11.9m (PY £12.4m) for the Council, which equates to approximately 1.35% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £595k (PY £620k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- financial resilience
- group governance

Introduction and headlines

Audit logistics

Our planning and interim “visits” took place remotely throughout January to April and our final visit will take place from June. It is anticipated that this is likely to be remote to some extent though we have discussed the logistics of coming out on site to discuss issues face to face with officers (ensuring all social distancing guidance is adhered to where applicable) as required.

Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor’s Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £215,710 (PY: £198,360) for the Council, subject to the Council delivering a good set of financial statements and working papers. See pages 19 and 20 for further analysis of the proposed fee.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Group audit scope and risk assessment

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

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
City of Wolverhampton Council	Yes		<ul style="list-style-type: none"> See pages 7 to 10 where the identified risks pertaining to the Council are detailed 	Full scope audit performed by Grant Thornton UK LLP
Wolverhampton Homes Limited	Yes		<ul style="list-style-type: none"> See pages 7 to 10 where the identified risks pertaining to the Group are detailed 	Audit of one or more classes of transactions, account balances or disclosures namely, in relation not the pension fund net liability to be performed by Grant Thornton UK LLP. The nature, time and extent of our involvement in the work of the separate Grant Thornton team will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the audit documentation and meeting with appropriate members of management.
City of Wolverhampton Housing Company Limited	No		<ul style="list-style-type: none"> See pages 7 to 10 where the identified risks pertaining to the Group are detailed 	Specific scope procedures on inventories to be performed by Grant Thornton UK LLP. The nature, time and extent of our involvement in the work of the separate Grant Thornton team will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the audit documentation and meeting with appropriate members of management.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Risk of fraud in revenue recognition and expenditure	Group and Council	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities, including City of Wolverhampton and its subsidiaries mean that all forms of fraud are seen as unacceptable. <p>Whilst not a presumed significant risk, we have had regard to Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure may well be greater than that of income. Because of this we have also considered and rebutted the risk of improper recognition of operating expenditure</p>	<p>Notwithstanding that we have rebutted this risk, we will still undertake a significant level of work on the Council's revenue streams, as they are material. We will:</p> <p><u>Accounting policies and systems</u></p> <ul style="list-style-type: none"> evaluate the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code update our understanding of the Council's business processes associated with accounting for income <p><u>Fees, charges and other service income</u></p> <ul style="list-style-type: none"> Agree, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. <p><u>Taxation and non-specific grant income</u></p> <ul style="list-style-type: none"> Income for national non-domestic rates and council tax is predicable and therefore we will conduct substantive analytical procedures For other grants we will sample test items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. <p>We will also design tests to address the risk that income has been understated, by not being recognised in the current financial year.</p> <p><u>Expenditure</u></p> <ul style="list-style-type: none"> update our understanding of the Council's business processes associated with accounting for expenditure agree, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence <p>We will also design tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year.</p>

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Council	<p>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. 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 will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test high risk unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. We will utilise Grant Thornton's diagnostic IT system, Inflo, as part of these considerations.
Valuation of net pension fund liability	Group and Council	<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 statements.</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 Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>We also consider that this risk applies to the group financial statements as in addition to the Council, Wolverhampton Homes Limited are also a member of the Local Government Pension Scheme and therefore include a net defined liability on its balance sheet, which includes significant estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update 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 evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test 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; • undertake 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 • obtain assurances from the auditor of the 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.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Group and Council	<p>Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. The Council 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.</p> <p>We have therefore identified the valuation of land and buildings revaluations and impairments as a risk of special audit consideration.</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 will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the evaluation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. <p>As a consequence of the pandemic, whereby the valuer may not have physically observed the assets we will consider how the valuer is assessing for impairment and/or obsolescence in the absence of a physical inspection</p> <p><u>Prior year considerations</u></p> <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., which resulted in a number of adjusted and unadjusted misstatements being reported. The Council is undertaking an increased amount of its own quality assurance processes for this year and future years such that any errors are identified and resolved prior to the audit process. This includes challenging the valuations as they are received by identifying any unusual year on year movements in order that they are able to understand the reasons for any variances.</p>

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Operating Expenses	Council	<p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses.</p> <p>Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.</p> <p>We are also applying specific focus to the occurrence of expenditure and existence of payables, to mitigate the risk that expenditure has been overstated to take advantage of the additional funding which has been available to the Council during the 2020/21 financial year.</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness • gain an understanding of the Council's system for accounting for non-pay expenditure • apply elevated risk procedures and test a sample of balances included within trade and other payables • test a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period. • apply elevated risk procedures and test a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period.
Level 3 Investments – Birmingham Airport	Council	<p>The Council have an investment in Birmingham Airport Holdings (BAHL) that is valued as a Level 3 investment. By their nature Level 3 investment valuations lack observable inputs. This is because these shares are not quoted on a stock exchange and are valued using non-observable data.</p> <p>In order to determine the value, management commission a review to ascertain the valuation of the investment as at the balance sheet date using an earnings based approach. Earnings multiples are based on an average of the lower-quartile earnings and transaction multiples for the industry, in this case, airports.</p> <p>The valuation of the Council's shareholding in Birmingham Airport Holdings Limited therefore represents an estimate by management in the financial statements due to the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate management's process in determining the fair value through use of an expert • appoint our own internal experts to review the valuation and appropriateness of the methodology applied • consider the reasonableness of the estimate • review the adequacy of the disclosure of the estimate in the financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

We identified recommendations in our 2019/20 audit in relation to the Council's estimation process for valuation of land and buildings, which have been discussed on page 9.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Risk Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 (Birmingham Airport) investments
- Valuation of guarantees

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have requested management to provide information as to how estimates are drawn up, above and beyond what is documented in the “informing the audit risk assessment”, which was presented to the Audit and Risk Committee at its last meeting on 8 March. As a separate exercise an Accounting Estimate Management Summary was presented, which set out how the Council had responded to questions raised on their key estimates. To support the understanding of those charged with governance, external experts had been invited to the Committee meeting from Burton Knowles and JLL to discuss the approach taken. The Director of Pensions will be in attendance at the Committee meeting in June to discuss the defined benefit pension liability.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council’s website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 17).

We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiaries. If such a situation arises, we will consider our audit response for the group.

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the group's financial statements, which resulted in 4 recommendations being reported in our 2019/20 Audit Findings Report. We have followed up on the implementation of our recommendations as noted below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	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.	We will keep this recommendation open until such time as we have seen the draft Annual Governance Statement, and concluded on whether this recommendation has been acted upon.
In progress	Related Parties The Council has historically over-disclosed in its related parties note, leading to the risk that material and pertinent information is being obscured. 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	We will keep this recommendation open until such time as we have seen the draft financial statements, and concluded on whether this recommendation has been acted upon.
In progress	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 understand different methodologies and any significant variances in the valuations, such that any errors are identified and resolved prior to the audit progress.	We are aware from discussions with the finance team that challenge and enhanced scrutiny has been undertaken as part of the valuation process. However, we will keep this recommendation open until such time as we have completed our audit work in this area, and concluded on whether this recommendation has been acted upon.
In progress	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, meaning the value of such assets recognised on the Balance Sheet was inconsistent with the valuation as reported by the Council's external valuer. 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.	Comments above apply.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £12.0m (PY £12.5m) for the group and £11.9m (PY £12.4m) for the Council, which equates to approximately 1.35% of your forecast gross expenditure for the year. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

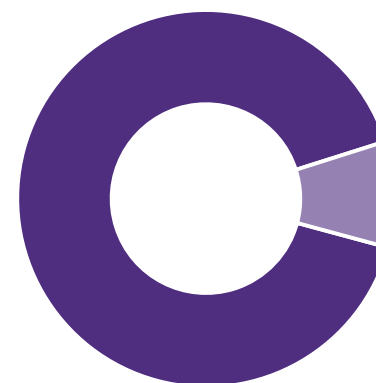
Matters we will report to the Audit and Risk Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Risk Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £595k (PY £620k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Risk Committee to assist it in fulfilling its governance responsibilities.

Prior year gross operating costs

£893m group
£884m Council



■ Prior year gross operating costs

Materiality



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table overleaf.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



Financial sustainability

The Authority has historically managed its finances well, but as noted in "Key Matters" on page 3 for several years the Council has been reported significant medium-term financial challenges and this has been exacerbated by the pandemic: the Council has suffered loss of operational income, and has had to deal with the allocation, distribution and provision of emergency loans and grants at sometimes relatively short notice, while continuing to provide "business as usual" services such as social care and education. As reported to Cabinet on 17 February 2021, that while the budget for 2012-22 is in balance within the use of general reserves, a further £25.4 million needs to be identified for 2022-23 rising to £29.6 million over the medium term in order to address the projected budget deficit.

The Council will need to maintain focus on delivering its budget, and be agile in the face of any continuing impacts of the pandemic.

We will review the Council's Medium Term Financial Statement and financial monitoring reports and assess the assumptions being used and savings being achieved.



Group governance

In our prior year audit findings report we raised a number of recommendations for the Council to consider as part of its ongoing investment in and work with City of Wolverhampton Housing Company Limited.

We are aware that in addition to considering the action required in relation to these recommendations the Council is also heeding the results of the public interest reports that have been issued recently, (Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021), which are the first issued since 2016 [Lessons from recent Public Interest Reports | Grant Thornton](#)).

Along with other weaknesses, the PIRs have drawn attention to failings in the governance arrangements where subsidiaries and associated entities are involved as well as a lack of understanding of how to manage financial and commercial uncertainty and risk in the medium to long term.

We will follow up action taken by the Council in response to the recommendations made as well as assessing the governance arrangements in its place with its associated entities.

Risks of significant VFM weaknesses

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

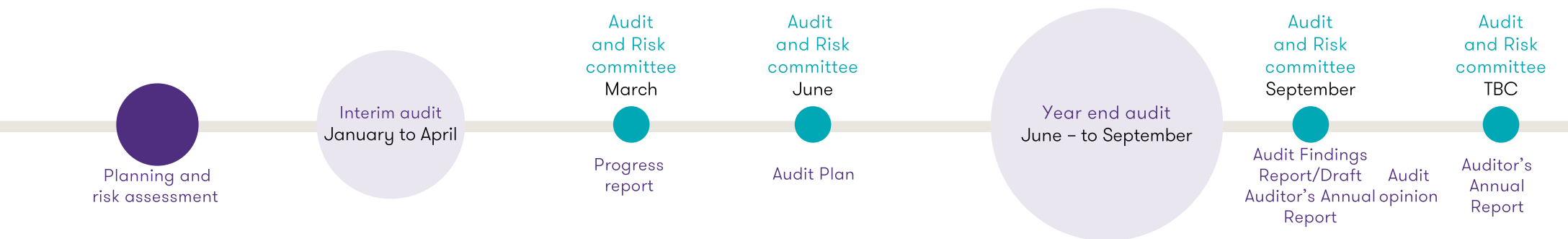
The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



Jon Roberts, Key Audit Partner



Key contact for senior management and Audit and Risk Committee. Jon will oversee the implementation and delivery of the audit and be the key contract for senior management and the Audit and Risk Committee. He will meet with the Council's senior management including the Director of Finance to help identify risks for the audit and provide advice and assistance as required.

Nic Coombe, Audit Manager



Nic will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. She will attend Audit and Risk Committees with Jon, and supervise Matt in leading the audit team. Nic will undertake reviews of the team's work and draft clear, concise and understandable reports.

Matthew Berrisford, Audit Incharge

Matt will be responsible for the "on-site" audit team management and will be the day-to-day point of contact for the finance team. He will be responsible for ensuring the audit fieldwork is complete.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a body not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a body not meeting its obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for City of Wolverhampton Council to begin with effect from 2018/19. The scale fee for 2018/19 was set by PSAA at £145,860. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 17, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £26,000. This is in line with increases we are proposing at all our local audits. Members may be aware that MHCLG is currently responding to the findings of the Redmond Review into local audit. As part of this, Government has recognised the need to provide additional funding to local authorities to support increases in audit fees.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
City of Wolverhampton Council Audit	£158,360	£198,360	£215,710
Audit of subsidiary company Wolverhampton Homes Limited	£27,675	£28,285	£28,285
Audit of subsidiary company City of Wolverhampton Housing Company Limited	£20,000	£22,500	TBC
Audit of subsidiary company Yoo Recruit Limited	£13,500	£14,000	TBC
Total audit fees (excluding VAT)	£219,535	£263,145	TBC

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£145,860
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£9,000
Enhanced audit procedures for Property, Plant and Equipment	£9,350
Enhanced audit procedures for Pensions	£3,500
Recurring element of 2019/20 fee	£167,710
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised ISAs	£17,000
Local risk factors	£5,000
<i>Proposed increase to agreed recurring 2019/20 fee</i>	£48,000
Total audit fees (excluding VAT)	£215,710

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

* Note that all fees noted are those charged in respect of 2019-20 as the equivalent fees for 2020-21 are yet to be determined.

There are no non-audit related services identified.

Service	Fees £ *	Threats	Safeguards
Audit related			
Certification of Housing Capital receipts grant	2,750	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of £251,710 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers Pension Return	4,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of £251,710 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit Claim	16,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of £251,710 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.








Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	

