



INFRASTRUCTURE, GOVERNMENT AND  
HEALTHCARE

Report to those  
charged with  
governance

Telford and Wrekin Council  
September 2008

AUDIT

# Content

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member or officer acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Michael McDonagh who is the engagement lead to the Council, telephone 0121 335 2440 email [michael.a.mcdonagh@kpmg.co.uk](mailto:michael.a.mcdonagh@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4063, email [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.



## Executive summary

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### **Purpose of this report**

To comply with the requirements of International Standard on Auditing (UK and Ireland) 260 ("ISA 260") *Communication of Audit Matters to Those Charged with Governance* and the Audit Commission's *Code of Audit Practice* ("the Code"), we are required to provide a summary of our work to "those charged with governance" – in other words, the Member group who approves the Authority's financial statements.

We are required by the *Code* to issue an opinion on the Authority's accounts. Alongside this, we also issue a conclusion on the Authority's use of resources, certifying whether adequate arrangements are in place for each area specified by the Commission. This report summarises our findings and conclusions in these two areas for the year ended 31 March 2008.

### **Our opinion and conclusion**

#### *Overall progress of the audit*

We have now substantially completed the audit of the Authority's financial statements. Once the remaining procedures have been completed, we propose to issue an unqualified audit opinion on 23 September 2008.

This was our first year as the Authority's auditors, so we based our audit planning on discussions with officers and the review of the previous auditor's findings. Inevitably in the first year working with new auditors, there will be challenge to accounting areas which may not have been reviewed for some time. Additionally, the Authority faced the challenge of the changes set out in the 2007 Statement of Recommended Practice (SORP) for local government accounting. Therefore, whilst historically, there have been relatively few issues arising from the audit of the Authority's accounts, the level of adjustments has been significantly higher this year.

Officers have supported the audit approach through providing working papers of a generally good standard and timely responses to our queries. We have noted in the body of this report some improvements which the Authority should make. Most notably, we have recommended that officers amend the closedown process to incorporate earlier review of new technical developments and prompter preparation and review of working papers. This should improve the quality of the accounts and working papers presented for audit, reducing the number of adjustments.

Following the completion of the audit, we will hold a more detailed debrief session with officers to identify further opportunities to improve both the accounts production and audit processes.

At the time of preparing this report, we have agreed the adjustments required with officers, though have not, as yet, reviewed an updated set of accounts to verify that the changes have been made correctly. We anticipate completing this prior to the Audit Committee meeting so will be able to provide committee members with a verbal update.

We also need to complete our review process in relation to a small number of audit areas. These are:

- finalising the adjustments for the accounting treatment of finance leases;
- auditing revised disclosures on financial instruments, once these have been produced;
- completing the audit of the cash flow statement; and
- clarifying the accounting treatment of the Authority's stake in the West Mercia Purchasing Consortium.

#### *Key issues for the accounts process*

In our Annual Audit and Inspection Plan for 2007/08, we described some of the challenges which the Authority would face in preparing its 2007/08 accounts and provided an update on progress in our Interim Report, issued in June 2008. These included changes to accounting requirements, which are set out in the Statement of Recommended Practice ("SORP") issued by CIPFA.

Whilst these changes provided a challenge to most authorities this year, we can report that the Authority has dealt with the changes well and only a small number of changes in the presentation of the accounts has resulted from these.

# Executive summary

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We also identified an issue in relation to the 2006/07 financial statements earlier in the year. One of the SORP changes introduced in 2007 was the new requirement for a Statement of Total Recognised Gains and Losses (STRGL). This statement summarises all the Authority's income, expenditure, gains and losses, and so its total should equal the amount by which the Balance Sheet has moved; we found that this was not the case.

At the time of our Interim Report, we had held extensive discussions with officers and identified some of the items making up the difference. However, at that stage, not all the required adjustments had been identified and we had not tested the underlying working papers for each change. Our work on these adjustments is now nearly concluded and we have agreed the majority of adjustments required with officers. Subject to these being confirmed, the STRGL for both 2006/07 and 2007/08 now correctly reconciles to the movement in the Authority's net worth.

Before we issue our opinion, we will require a signed management representation letter, and have provided a draft of this in Appendix 6.

Our findings are set out in more detail in section 2 of this report and our proposed opinion on the accounts is presented in Appendix 1. A draft management representations letter is also set out at Appendix 6.

### *Use of Resources conclusion*

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness.

Our responsibility is to satisfy ourselves that you have in place proper arrangements by reviewing and, where appropriate, examining evidence that is relevant to your corporate performance and financial management arrangements and reporting on them.

We make our assessment on the basis of the previous year's assessment, updating this for developments since last year. We have undertaken work to update our findings from last year. We will reach our final conclusion through a national moderation exercise in October, but at present we anticipate to conclude that the Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our findings are detailed in section 3 of this report and our proposed conclusion is set out at Appendix 2.

### *Exercise of other powers*

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to our attention in order for it brought to the attention of the public. In addition we have a range of other powers under the 1988 Act. We did not exercise these powers or issue a report in the public interest in 2007/08.

### *Certificate*

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the *Code of Audit Practice*. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to you and to issue a draft opinion on the financial statements.

Issue of our certificate is subject to conclusion of the outstanding issues mentioned above.

### **Declaration of independence and objectivity**

We confirm that there were no relationships between KPMG LLP and the Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5.

## Accounts and Annual Governance Statement

We have now substantially completed the audit. We have identified some significant adjustments to the presentation of the accounts, though these do not affect the Authority's financial position.

On receiving your management representations letter we will issue an unqualified audit opinion on 23 September 2008.

We reported on the elements of our work completed earlier in the year in our Interim Report which was finalised in June 2008. The work completed in this phase of the audit consists mainly of planning and work on the Authority's financial control arrangements. We also reported that we had identified a number of specific areas of focus for the accounts audit. These included the changes in the SORP for 2007/08, and the Statement of Total Recognised Gains and Losses (STRGL) in the Authority's 2006/07 accounts.

### Correcting the STRGL

The 2006 SORP introduced a requirement for local authorities' accounts to include a Statement of Total Recognised Gains and Losses (STRGL). The purpose of this statement is to summarise all changes to the Authority's net worth, bringing together transactions in the Income and Expenditure Account (I&E) with other gains and losses, such as revaluation gains, which do not appear in the I&E. Many authorities found the process of compiling the STRGL was very challenging.

The purpose of the STRGL is to summarise all changes to the Authority's "net worth" (ie. the balance sheet total) by bringing together transactions in the I&E with other gains and losses, such as gains and losses on revaluation of assets, which do not appear in the I&E. Our review of the Authority's 2006/07 accounts identified that the STRGL recorded total gains of £29.5m, whereas the Balance Sheet only showed total gains of £0.265m.

We have worked with officers to identify and confirm the amendments needed to correct this imbalance. Subject to the clearance of one query, we will be able to conclude our work on these adjustments, after which the STRGLs in 2007/08 and in the 2006/07 comparator will balance correctly to the movement on the balance sheet each year.

### Changes to the 2007 SORP: financial instruments

The 2007 SORP implements new standards for accounting for "financial instruments". In simple terms, financial instruments are the Authority's financial assets and liabilities, such as investments, borrowings, debtors and creditors, though the definition is broader and can include legal agreements such as where the Authority gives a financial guarantee to a third party. The breadth of the new standards has made them a challenge for many authorities.

We reviewed how the Authority had implemented the required changes. In the majority of cases, we agreed with the Authority's treatments.

One of the particular challenges of the new standards is that a much more extensive level of disclosure is required than was the case under the previous arrangements. We compared the level of disclosure in the Authority's accounts to the SORP and to other authorities we work with and have agreed with officers that the disclosures be expanded though, at the time of preparing this report, we have not received and reviewed the revised disclosures.

### Changes to the 2007 SORP – accounting for fixed assets

The SORP also included changes to how fixed assets are accounted for this year. The introduction of a Revaluation Reserve which follows the same rules as in the NHS or commercial sectors, requires revaluations to be recorded on an asset by asset basis, which therefore increases the detail needed in the Authority's records. It also changes the accounting entries required.

The Authority has successfully adapted its fixed asset register to cope with the requirement, and has implemented the changes in accounting requirements correctly.

## Accounts and Annual Governance Statement

### Accounts Production

Your accounts production process is assessed as part of our Use of Resources assessment. As part of this process, we have considered the production process against three criteria:

#### *Completeness of draft accounts*

We received a draft set of accounts prior to commencement of our on-site audit work, which began on 7 July 2008. In most respects, the draft accounts were complete, subject to the amendments to financial instruments disclosures described above. We also identified that disclosure is required where the Authority leases assets to third parties. The primary financial statements and other disclosures were completed, though some adjustments were required, as set out below and in Appendix 3.

#### *Quality of supporting working papers*

We issued an Accounts Audit Protocol which set out the mutual responsibilities of the Authority's officers and the audit team. This included details of the working papers which we require in order to complete the audit. We received a full set of working papers early in the audit. The standard of working papers was generally good, though in some instances, there is scope to improve the clarity of working papers further. We will discuss these points with officers in more detail following the completion of the audit.

In our Interim Report, we reiterated the need for the Authority to plan for known accounting issues. As officers commented in their response to this recommendation, the Corporate Finance team is being further strengthened through the redeployment of an additional member of staff into the team. This should help the team address issues well in advance and manage financial reporting alongside their other duties.

To help achieve these benefits, the closedown timetable should be updated to show clearly when SORP changes will be reviewed and discussed with us, and when working papers will be prepared and reviewed, ensuring in particular that these stages happen as early as possible in the closedown process..

#### **Recommendation 1: Enhancing the accounts closedown process**

The Authority should update its accounts closedown process to include detailed consideration of accounting changes at an early stage. The closedown timetable should also identify which working papers can be prepared and reviewed earlier.

#### *Response to audit queries*

We held weekly meetings with the Finance Manager and Corporate Finance Manager to inform them of progress and outstanding audit queries to facilitate their resolution. Most audit queries were resolved to our satisfaction on a timely basis.

### Audit adjustments and other findings

Under ISA260, we are required to report to the Audit Committee:

- adjustments identified in the course of the audit which management have not agreed to adjust;
- other significant adjustments;
- qualitative aspects of the Authority's accounting practices
- material weaknesses in internal control;

We have identified no weaknesses in internal control which we believe to be material. We have set out below the main audit adjustments and opportunities to refine the Authority's accounting practices. A complete list of audit adjustments may be found at Appendix 3, and the Authority's response to our recommendations is included in the action plan in Appendix 4.

# Accounts and Annual Governance Statement

### *Provision for doubtful debts*

Authorities are required to make a provision offsetting their debtor balance:

- to ensure that debtors are carried in the balance sheet at a fair estimate of the value which will be received – in other words, taking account of the fact that not all balances will be collected; and
- to ensure that the cost of maintaining this provision is fairly allocated to each service in the I&E.

We identified that one Portfolio had calculated the amount which it believed was appropriate to cover the risks it faces on its debts, but had only provided a lesser amount. Offsetting this under-provision, a corporate provision exists as a “last resort” which is used only for exceptional write-offs of old debts.

Whilst the central provision means that the total provision is unlikely to be significantly understated, it does not ensure that the impact on service revenue accounts is correct, since the cost of writing a debt off against the central provision is not charged to the service who “owned” the debt. Officers have agreed to increase the Portfolio provision to the total amount calculated and release the general provision, which would be held in an earmarked reserve, should the Authority wish to have an allocated resource to avoid debt write-offs affecting services’ budget carry-forward balances.

We have also recommended that officers should review the basis of the bad debt provision calculation to ensure that each Portfolio’s calculation is carried out to an equal standard and following a consistent methodology – for example, using information on the age of debts and how much old debt is collected to inform the calculation of the provision, which does not always happen at present. This will achieve the two objectives set out above.

#### **Recommendation 2: Calculating the provision for doubtful debts**

The Authority should review its methodology for providing against doubtful debts and ensure that this is applied to a consistent standard by all Portfolios.

### *Accounting for fixed assets*

Our testing of expenditure on fixed assets identified that the Authority does not accrue for retentions on capital contracts but rather recognises this expenditure when it is defrayed. We established that the amount of unaccrued retentions was not material. However, to ensure that the Authority’s accounting policy is consistent with requirements and with other organisations, it should accrue for contract retentions in future.

Our testing of expenditure on fixed assets including salary costs capitalised on the basis that these costs were associated with the purchase or construction of fixed assets. This is allowed under accounting standards provided that salary costs are directly attributable to acquisition of fixed assets; some of the capitalised costs were supported by records directly linking them to acquisition of fixed assets, whilst some were capitalised on the basis of estimates and historical percentages applied to costs. Our sample included £243,000 of capitalised costs of which there was not clear support for an amount of £199,000.

#### **Recommendation 3: Capital accounting**

The Authority should accrue for retentions on capital contracts once the contracted work is complete.

The Authority should review the methodology for capitalising salary costs to ensure that only costs directly attributable to acquisition and construction of fixed assets are capitalised. Costs capitalised should be supported by adequate records.

### *Treatment of finance leases*

We identified assets held under finance leases had not been accounted for correctly, in that no liability for future lease payments had been created to offset the asset acquired. Officers have identified the value of the liability which should have been in place and we understand that the accounts will be adjusted to reflect this.

## Accounts and Annual Governance Statement

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### *Overstated debtors and creditors*

We identified two instances where a debtor balances had been created in error, but were offset by a creditor being created rather than being reversed out. This meant that the net balance remained correct, but the gross debtor and creditor balances were overstated by £3.895m.

The Authority has adjusted the accounts for this error. We understand that a similar issue was identified by the previous auditors in the 2006/07 audit, so the Authority may wish to consider what further training or controls should be introduced to prevent this issue from recurring.

### **Opinions and Representations**

We are required to provide you with representations concerning our independence and ability to act as your auditors. This is attached at Appendix 5 of this report.

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a copy of this as Appendix 6. Once we have received this, we will issue our audit opinion, subject to resolution of the final queries raised above.

## Use of resources

We are required to satisfy ourselves that you have proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources. We reach this conclusion by considering the findings of the Use of Resources and Data Quality audits.

Based upon this we have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Introduction

In our audit plan we outlined the work streams we consider to assess whether the arrangements you have in place to ensure that your resources are deployed effectively are appropriate. Our conclusion is based on these work streams, including your use of resources (UoR) self assessment, our cumulative audit knowledge and discussions with management to discuss adequacy of arrangements.

### Summary of the assessments

This assessment analyses your performance against the five themes published by the Audit Commission, which are set out in the table below:

Code criterion	Source of evidence	Score	Assessment
Setting strategic and operational objectives	Our assessment against these criteria is informed by the Audit Commission's latest Corporate Assessment report, direction of travel, and discussions with the Comprehensive Area Assessment Lead on progress.		<b>Achieved</b>
Consultation with stakeholders			<b>Achieved</b>
Monitoring and scrutiny of performance			<b>Achieved</b>
Data quality			<b>Achieved</b>
Medium term financial planning and budgeting	KLOE 2.1	3	<b>Achieved</b>
Managing performance against budgets	KLOE 2.2	3	<b>Achieved</b>
Asset management	KLOE 2.3	4	<b>Achieved</b>
Managing spending within available resources	KLOE 3.1	3	<b>Achieved</b>
Risk management	KLOE 4.1	4	<b>Achieved</b>
System of internal control	KLOE 4.2	3	<b>Achieved</b>
Probity and propriety	KLOE 4.3	4	<b>Achieved</b>
Managing and improving value for money	KLOE 5.2	3	<b>Achieved</b>

The scale on which the themes are scored ranges from one (inadequate) to four (performing strongly). A score above level 2 is sufficient to support an unqualified use of resources conclusion.

We assessed your achievement of the criteria for each theme for 2007/08 as being of an overall good performance, with level three being achieved for each of the five areas. We reported our findings in detail in our Use of Resources and Data Quality Report which was finalised in March 2008.

The overall score from your 2007 assessment indicates that you have achieved the criteria specified by the Audit Commission, and are performing consistently above minimum requirements.

Our work in relation to the 2008/09 assessment is ongoing and the Authority has submitted to us a range of examples which it considers to be of notable practice, which we are currently reviewing. We will report our detailed findings in our Annual External Audit Report in December 2008.

## Appendix 1: Proposed accounts audit opinion

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### Independent auditor's report to the Members of Telford and Wrekin Council

#### Opinion on the statement of accounts

We have audited the Authority's statement of accounts and related notes of Telford and Wrekin Council, for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority's statement of accounts comprises the Explanatory Foreword, Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Collection Fund and the related notes. The statement of accounts has been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Telford and Wrekin Council as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Telford and Wrekin Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Telford and Wrekin Council, as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the Responsible Financial Officer and auditor**

The Responsible Financial Officer's responsibilities for preparing the statement of accounts in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the statement of accounts.

Our responsibility is to audit the statement of accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Authority's statement of accounts presents fairly the financial position of Telford and Wrekin Council and its income and expenditure for the year in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007.

We review whether the governance statement reflects compliance with "Delivering Good Governance in Local Government: A Framework" published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the statement of accounts. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the Authority statement of accounts, and consider whether it is consistent with the audited Authority statement of accounts. This other information comprises the Annual Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Authority statement of accounts. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998, the *Code of Audit Practice* issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority statement of accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority statement of accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which We considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority statement of accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Authority statement of accounts and related notes.

## Appendix 1: Proposed accounts audit opinion

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### ***Opinion***

In our opinion:

The Authority statement of accounts presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

KPMG LLP

Chartered Accountants

Birmingham

X September 2008

## Appendix 2: Proposed use of resources conclusion

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### Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

### Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to satisfy ourselves that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The *Code of Audit Practice* issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

In 2007 your appointed auditor was required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that they had done so;
- stating whether they believed that the plan had been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and where relevant, making any recommendations under section 7 of the Local Government Act 1999.

### Proposed Conclusion

We have undertaken our audit in accordance with the *Code of Audit Practice* and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, We are satisfied that, in all significant respects, Telford and Wrekin Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

### Best Value Performance Plan

The previous appointed auditor (the Audit Commission) issued their statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on xx December 2007. They did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

### Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the *Code of Audit Practice* issued by the Audit Commission.

KPMG LLP  
Chartered Accountants  
Birmingham  
X September 2008

## Appendix 3: Audit differences

We are required by ISA (UK and Ireland) 260 *Communication of Audit Matters to Those Charged with Governance* to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to the Audit Committee. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Uncorrected audit differences

There are no uncorrected audit differences.

### Corrected audit differences

Detailed below are the audit differences that have been corrected. The differences are split into two tables; the first table relates to adjustments relating to this financial year, the second to adjustments relating to comparative figures from 2006/07 included in the 2007/08 statements, including the corrections needed to balance the 2006/07 STRGL which were already included in the first draft version of the accounts previously presented to the Audit Committee.

Adjustments to the 2007/08 accounts		
Impact		Basis of audit difference
Income and expenditure	Balance sheet	
Dr Net Cost of Services: Non-Distributed Costs £2,827k Cr SMGFB: Net charges made in accordance with FRS 17 £2,827k		To account for past service pension costs through the I&E rather than through the STRGL.
	Dr Sundry Creditors £3,895k Cr Sundry Debtors £3,895k	To correct for two overstated debtor and creditor balances.
Cr Net cost of services £754k	Dr Bad debt provision £754k	To release the provision for unspecified bad debts
Dr SMGFB: gain on disposals of fixed assets: £215k Cr I&E: Gains on disposals of fixed assets £215k	Dr Creditors £215k Cr Useable capital receipts £215k	To account for repayment of private sector housing grant as a capital receipt
	Dr: Premia on early redemption of debt £2,060k Cr Financial Instruments Adjustment Account £2,060k	To correctly write off previously amortised premia on early redemption of loans
	Dr Provisions £6,085k Cr Creditors – receipts in advance £6,085k	To correctly account for Section 106 contributions and Commuted Sums where the obligation to repay has not yet been discharged.
Dr I&E: net cost of services (various services) £119k	Cr Fixed assets (depreciation) £119k	To provide for depreciation on infrastructure assets.
	Dr Net cost of services: adult and consumer care £35k Cr Bad debt provision £35	To provide for doubtful debts as assessed
Dr Net cost of services - education services £1,962k Cr Central services to the public £1,962k	Dr Fixed assets: Ordinary land and buildings (additions) £1,962k Cr Fixed assets: Ordinary land and buildings (impairments) £1,962k	To account correctly for the purchase of the Shortwood school site.

(Contd. overleaf)

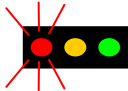
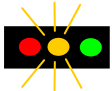
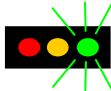
## Appendix 3: Audit differences

The following table shows the adjustments made from the 2006/07 accounts to the prior year comparators in 2007/08. This includes an analysis of the corrections which were necessary to balance the 2006/07 STRGL, plus a small number of other adjustments.

Adjustments to the 2006/07 comparators		
Impact		Basis of audit difference
Income and expenditure	Balance sheet	
Dr Net Cost of Services: Non-Distributed Costs £17k Cr SMGFB: Net charges made in accordance with FRS 17 £ 17k		To account for past service pension costs through the I&E rather than through the STRGL.
Dr Net Cost of Services (various headings) £32,986k Cr SMGFB: Depreciation and impairment of fixed assets £32,986k		To account correctly for the write off of non-enhancing expenditure
Dr SMGFB: Gain on disposal of fixed assets £978k Cr I&E: Gain on disposal of fixed assets £978k		To account correctly for the receipt of right to buy clawback from Wrekin Housing Trust.
	Dr Collection Fund reserve £45k Cr Creditors £45k	To account correctly for the share of the collection fund balance attributable to other authorities.
Dr Net cost of services (various headings) £1,529k Cr SMGFB: Depreciation and impairment of fixed assets £1,529k		To account correctly for the amortisation of deferred charges through the I&E Account.
Dr SMGFB: Depreciation and impairment of fixed assets £15,417k Cr Net Cost of Services (various headings) £15,417k		To account for non-enhancing expenditure and deferred charge expenditure through the I&E rather than the STRGL.
	Dr Fixed assets £2,279k Cr FARA £2,279	To account correctly for disposals of assets not on the asset register.
Dr SMGFB £4,729k Cr Net Cost of Services (various headings) £4,729k		To correct for income and expenditure taken directly to the reserves rather than through the I&E.
Dr I&E: Net Cost of Services (various) £16,646k Cr SMGFB £ 16,646k		To account correctly for write-off of assets where no proceeds were received.
	Dr Fixed assets £1,253k Cr FARA £1,253k	To account correctly for capital receipts not linked to assets.
Dr SMGFB premiums on early redemption of debt £2,060k Cr I&E account: Interest and similar charges £2,060k	Dr: Financial Instruments Adjustment Account £2,060k Cr premiums on early redemption of debt £2,060k	To correctly write off previously amortised premiums on early redemption of loans

## Appendix 4: Action plan

This appendix summarises the recommendations with officers' agreed responses.

Priority rating for recommendations		
<p><b>Priority 1:</b> Issues that are fundamental and material to your system of internal control.</p> 	<p><b>Priority 2:</b> Issues that have an important effect on internal controls.</p> 	<p><b>Priority 3:</b> Issues that would, if corrected, improve the internal control in general but are not vital to the overall system.</p> 

Risk	Issue and recommendation	Management response	Officer and due date
1 ● (two)	<p><b>Enhancing the accounts closedown process</b></p> <p>The Authority should update its accounts closedown process to include detailed consideration of accounting changes at an early stage. The closedown timetable should also identify which working papers can be prepared and reviewed earlier.</p>	<p>As flagged previously in response to the interim report, additional resources were already planned and are now in place in Corporate Finance which will provide capacity to focus and plan for accounting changes at an earlier stage in the closedown process.</p> <p>The closedown timetable will be reviewed to assess whether any working papers can be produced earlier.</p>	<p>Paul Clifford 31/3/09</p> <p>Paul Clifford 31/12/08</p>
2 ● (two)	<p><b>Calculating the provision for doubtful debts</b></p> <p>The Authority should review its methodology for providing against doubtful debts and ensure that this is applied to a consistent standard by all Portfolios.</p>	<p>Agree. The methodology will be reviewed across all Portfolios prior to the 2008/09 final accounts but needs to take account of the nature of different debts involved so consistency doesn't have to mean the same % provision etc.</p>	<p>Paul Clifford 31/03/09</p>
3 ● (two)	<p><b>Capital accounting</b></p> <p>The Authority should accrue for retentions on capital contracts once the contracted work is complete.</p> <p>The Authority should review the methodology for capitalising salary costs to ensure that only costs directly attributable to acquisition and construction of fixed assets are capitalised. Costs capitalised should be supported by adequate records.</p>	<p>Officers quantified the value of the retentions at £278k for 2007/08 which is not material and therefore the adjustment was not made. The policy will be reviewed for 2008/09 and retentions will be accrued as appropriate.</p> <p>Further guidance will be issued to Finance Officers on the methodology for capitalising salary costs and the need to ensure adequate records are maintained.</p>	<p>Paul Clifford 31/03/09</p> <p>Paul Clifford 31/10/08</p>

# Appendix 5: Declaration of independence and objectivity

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### Declaration of Independence and Objectivity

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* ("the Code") which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired"

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the *Code*, the detailed provisions of the Statement of Independence included within the Audit Commission's *Annual Letter of Guidance and Standing Guidance* ("Audit Commission Guidance") and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ("Ethical Standards").

The *Code* states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence;
- the related safeguards that are in place; and
- the total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

### General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in its Ethics and Independence Manual ("the Manual"). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

## Appendix 5: Declaration of independence and objectivity

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KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

### **Auditor Declaration**

In relation to the audit of the financial statements of Telford and Wrekin Council for the financial year ending 31 March 2008, we confirm that there were no relationships between KPMG LLP and the Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

## Appendix 6: Draft management representation letter

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We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Council, the following representations given to you in connection with your audit of the financial statements for Telford and Wrekin Council for the year ended 31 March 2008.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Telford and Wrekin Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Council and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Council to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2008.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Council involving:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

## Appendix 6: Draft management representation letter (continued)

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- Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Audit Committee on 16 September 2008.

Yours faithfully

[Corporate Director of Resources]

On behalf of the Council