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Report to those charged with governance (ISA 260) 2010/11

Telford & Wrekin Council

20 September 2011



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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 of staff 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 which is available on the Audit Commission's website at www.auditcommission.gov.uk.

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, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to 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 are 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 Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

This report summarises:

- the key issues identified during our audit of Telford & Wrekin Council's ('the Authority's) financial statements for the year ended 31 March 2011; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

We do not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2010/11*, presented to you on 27 June 2011, which summarised our planning and interim audit work

Financial statements

Our audit of the financial statements can be split into four phases:



We previously reported on our work on the first two stages in our *Interim Audit Report 2010/11* issued in June.

This report focuses on the final two stages: substantive procedures and completion. It also includes any additional findings in respect of our control evaluation that we have identified since we issued our *Interim Audit Report 2010/11*.

Our final accounts visit on site took place between 4 July 2011 and 29 July 2011, and has continued off-site into September 2011 as we worked with officers to complete the audit work. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

We have also now completed our work in respect of the 2010/11 VFM conclusion. This included the work to address the specific risk areas identified in our *Audit Fee Letter 2010/11*.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2010/11 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Proposed audit opinion	Our audit is currently ongoing and we will update you on our progress at the Audit Committee.
Audit adjustments	<p>To date, our audit has identified a total of 11 audit adjustments with a total gross value of £114.6m. A number of these adjustments impact upon the surplus on provision of services for both 2009/10 and 2010/11 and also upon the net worth for 2010/11. These adjustments had no impact upon the General Fund balance in either year.</p> <p>The impact upon net worth relates to a reversal of impairments charged in relation to deminimis assets which, subsequent to our audit work, are have now been grouped and being held within Property, Plant & Equipment. These are now being depreciated over the life of the asset as opposed to having been fully impaired in the year of acquisition. This has also had a significant impact upon the surplus on provision of services.</p> <p>Additional changes to the surplus on provision of services have arisen primarily from the need to recognise income through the Comprehensive Income & Expenditure Account in relation to capital grants where the conditions are met during the year. Further significant adjustments were required in order to account for fair value movements on Investment Properties which has originally been incorrectly taken to the revaluation reserve and pension costs not recognised in the Comprehensive Income & Expenditure Account. As a result we have incurred additional costs over and above our normal audit and are currently in discussions with officers with regards to these.</p> <p>The net impact of the adjustments identified to date is to:</p> <ul style="list-style-type: none"> ■ Reduce the deficit on provision of services for 2009/10 by £20.2m ■ Change the deficit on provision of services for 2010/11 to a surplus of £23.4m, a movement of £53.6m; and ■ Increase the net worth of the Authority as at 31 March 2011 by £10.8m. <p>We have included a full list of significant audit adjustments at Appendix 3. All of these were adjusted by the Authority.</p> <p>We have raised recommendations in relation to the matters highlighted above requiring the Authority to:</p> <ul style="list-style-type: none"> ■ Ensure that a more thorough review of the draft financial statements is undertaken by senior management so as to identify errors and presentation issues at an earlier stage; and ■ Undertake a more robust review of the Code and IFRS on an annual basis in order to ensure that any changes are identified and that the technical knowledge of those involved in the preparation of the financial statements remains up-to-date. <p>These recommendations are summarised in Appendix 1.</p> <p>In addition, we identified a number of presentational issues that required amendment which are summarised at Appendix 4. All of these were amended by the Authority.</p>

This table summarises the headline messages. The remainder of this report provides further details on each area.

<p>Critical accounting matters</p>	<p>We have worked with officers throughout the year to discuss specific risk areas. We are working with the Authority to ensure the issues identified are appropriately addressed. There are two main issues that need to be resolved as part of the audit and we are continuing our work on these with the Authority's officers, these are as follows:</p> <ul style="list-style-type: none"> ■ In relation to the IFRS requirements relating to componentisation of assets the Authority developed a policy based upon a set of thresholds. In 2010/11 the application of this policy to new and revalued assets has resulted in no componentisation being undertaken and we are still reviewing this as part of audit. However, should the same result occur in 2011/12 then the Authority will need to reconsider the policy and specifically the thresholds applied. ■ The Authority is currently operating two de minimis levels in relation to Capital Accounting. The first level allows any qualifying expenditure over £1,000 to be treated as capital expenditure whilst the second level results in any assets with a purchase cost of less than £50,000 being immediately impaired and removed from the Fixed Asset Register. In 2010/11 the value of additions and impairments arising from this approach, post audit differences, exceeded £9m and we are still reviewing the appropriateness of this as part of our audit. In relation to such thresholds the Code states that they should be harmonised.
<p>Accounts production and audit process</p>	<p>Whilst we have noted an improvement in the general quality of supporting working papers we nevertheless did encounter a number of difficulties during our audit. In common with most local authorities, with the implementation of IFRS, and as a result we have identified a large number of presentational errors in the draft Accounts. However, as stated we acknowledge that 2010/11 has been a difficult year due to the implementation of a new Financial Ledger and the IFRS restatement; and in addition we acknowledge that due to the restructuring taking place throughout the year this too impacted on the accounts production process. Despite this, we consider that improvements are needed in order to strengthen the accounts production process. Recommendations relating to this have been included at Appendix 1.</p> <p>Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. However, we identified a number of areas where the production of the accounts was not as technically robust as we had expected, and this will need to be improved. These areas included Investment Properties and Capital Grants.</p> <p>The Authority has implemented the majority of the recommendations in our <i>ISA 260 Report 2009/10</i> relating to the financial statements.</p>
<p>Completion</p>	<p>At the date of this report our audit of the financial statements is substantially complete subject to agreement of final adjustments, the issues detailed above, our internal quality review processes and receipt of the management representation letter. Before we can issue our opinion we require a signed copy of the management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
<p>VFM conclusion</p>	<p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>

This table summarises the headline messages. The remainder of this report provides further details on each area.

VFM risk areas

We have considered the specific VFM risks we set out in our *VFM Audit Plan 2010/11*.

Key findings from this work are:

- The Restructuring Programme is operating to timetable and the Authority expects it to deliver the desired savings.
- The implementation of Single Status has been delayed until 2014, with no contribution to the Single Status accrual being made in 2011/12.
- The risks related to the Railfreight Terminal are mitigated through the terms of the arrangement meaning that the Authority has no obligation to contribute towards losses incurred by the operator.

Our audit has identified a total of 11 audit adjustments with a total gross value of £114.606m

The impact of these adjustments is to:

- Decrease the deficit on provision of services for 2009/10 by £20.182m;
- Change the deficit on provision of services for 2010/11 to a surplus of £23.371m, a movement of £53.574m; and
- Increase the net worth of the Authority as at 31 March 2011 by £10.795m.

Proposed audit opinion

Our audit is currently ongoing and we will update you on our progress at the audit committee.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Our audit identified a total of 11 audit adjustments with a total gross value of £114.61m.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2011.

There is no net impact on the General Fund balance as at 31 March 2011 as a result of audit adjustments identified.

Of the other audit adjustments we have identified, the most significant in monetary value are as follows:

- Income from Capital Grants where the attached conditions had been met during the year and not been recognised in the Comprehensive Income & Expenditure Account. The value of this income was £45.5m for 2010/11 (£17.9m for 2009/10). The income had already been taken to the appropriate reserves so there was no impact upon the Authority's Net Worth.
- From a review of capital expenditure under the £50,000 de minimis threshold a number of additional assets were identified for inclusion on the Fixed Asset Register. This resulted in impairments being reduced by £11.99m, additional depreciation of £1.2m and a net increase in Property Plant & Equipment of £10.76m.

Movements on the General Fund 2010/11		
£m	Pre-audit	Post-audit
Surplus or (deficit) on the provision of services	(30.203)	23.371
Adjustments between accounting basis & funding basis under regulations	34.883	(18.252)
Transfers to/ from earmarked reserves	(5.576)	(6,015)
Increase/decrease in General Fund	(0.896)	(0.896)

Balance Sheet as at 31 March 2011		
£m	Pre-audit	Post-audit
Property, plant and equipment	293.641	303.682
Other long term assets	86.621	90.547
Current assets	64.930	63.373
Current liabilities	(106.405)	(108.021)
Long term liabilities	(300.485)	(300.484)
Net worth	38.302	49.097
General Fund	3.263	3.263
Other reserves	35.039	45.834
Total reserves	38.302	49.097

The wording of your Annual Governance Statement accords with our understanding.

We have provided a summary of significant audit differences in Appendix 3. These have been adjusted in the final version of the financial statements.

In addition, we identified a large number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2010* ('the Code'). The Authority has addressed these issues.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have worked with officers throughout the year to discuss specific risk areas. The Authority has addressed the issues appropriately.

In our *Financial Statements Audit Plan 2010/11*, presented to you in March 2011, we identified the key risks affecting the Authority's 2010/11 financial statements.

In our *Interim Audit Report 2010/11* we commented on the Authority's progress in addressing these key risks. We highlighted that the work in relation to the IFRS Conversion was ongoing, as the restatement had not been finalised by the Authority, and that regular meetings were ongoing in relation to the implementation of Single Status.

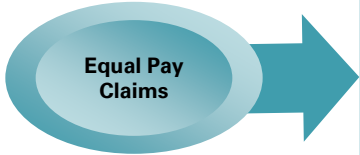
We have now completed our testing of these areas and set out our final evaluation following our substantive work.

The table below sets out our detailed findings for each risk.



Key audit risk	Issue	Findings
	<p>The preparation of financial statements under IFRS contains a number of significant differences compared to the previous financial reporting regime. The Authority will need to ensure that compliance with each standard is achieved.</p>	<p>We completed our audit of the IFRS restatement as part of our substantive testing in relation to the draft financial statements.</p> <p>A number of the audit differences identified in relation to the 2010/11 financial statements arose due to not correctly applying the requirements of IFRS. As a result of this, these differences required similar adjustments to be made to the IFRS restatements for 2008/09 and 2009/10.</p> <p>Details of the adjustments are included in the narrative provided in Appendix 3.</p>
	<p>The Authority faces a cut in grant funding of £13.6m in 2011/12 as central government's cuts to local authority funding are 'front-loaded'. Telford and Wrekin have responded to the challenge with a comprehensive review and restructure of its corporate management team and is in the process of a systematic review and restructure of its services.</p> <p>This, along with one-off savings and a £1.4m use of balances, has plugged the gap for the 2011/12 budget.</p>	<p>We are reporting our findings in relation to this issue in Section 4.</p>

As a result of our audit we have identified two key areas of risk that will need to be addressed going forward:

- Review of the Fixed Asset Componentisation policy should there be no impact resulting from its application in 2011/12;
- Review of the Capital Accounting thresholds utilised by the Authority to ensure full compliance with the Code.

Key audit risk	Issue	Findings
	<p>The Authority has yet to implement Single Status and has postponed its original implementation date.</p> <p>The Authority will need to also ensure that any provision in its accounts for the back pay costs element is made on the basis of the most accurate and up to date information.</p>	<p>We are continuing to meet with relevant senior staff in order to discuss the Authority's progress in relation to Single Status and will continue to do so in order to review the methodology adopted and their assessment of the need for any provision in the financial statements.</p> <p>The implementation of Single Status has been delayed until April 2014. In our <i>ISA 260 Report 2009/10</i> we raised a recommendation requiring the Authority to ensure they achieved implementation by June 2011. This has now been superseded by a new recommendation based upon the new implementation date.</p>

In addition to the above we identified two further areas of risk that we are still working on with the Authority, and which will also require further consideration during 2011/12.

Key audit risk	Issue
	<p>The Authority has implemented a policy in relation to the IFRS requirements for component accounting. This policy is based upon the application of a series of thresholds relating to the asset's value and useful economic life.</p> <p>The application of this policy to additions and revalued assets in 2010/11 has resulted in no componentisation being undertaken, we are currently reviewing the appropriateness of this. If the same occurs in relation to the 2011/12 financial statements then the Authority should reconsider its policy.</p>
	<p>The Authority currently operates two deminimis levels in relation to Capital Accounting. This first allows any qualifying expenditure over £1,000 to be treated as capital expenditure whilst the second results in any assets with a purchase cost of less than £50,000 being immediately impaired and removed from the Fixed Asset Register. In 2010/11 the value of additions and impairments arising from this approach exceeded £9m and we are still carrying out audit work reviewing this.</p> <p>The Authority should review the thresholds in order to ensure that they comply fully with the Code which requires that they should be harmonised.</p>

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the overall planned timescales.

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	<p>Whilst the Authority has improved the quality of its supporting working papers the level of adjustments identified is indicative of weaknesses in the accounts production process.</p> <p>Further improvements to the process should be achieved by ensuring that a robust review of the draft financial statements is undertaken by senior management, by allocating additional staffing to the process, and by undertaking a thorough more comprehensive of the Code on an annual basis</p> <p>We consider that accounting practices are appropriate.</p>
Completeness of draft accounts	<p>We received a complete set of draft accounts on 1 July 2011.</p>
Quality of supporting working papers	<p>Our <i>Accounts Audit Protocol</i>, which we issued in April 2011 and discussed with the Finance Manager, set out our working paper requirements for the audit.</p> <p>The quality of working papers provided was variable but met the standards specified in our <i>Accounts Audit Protocol</i> and evidenced an improvement on the prior year.</p>

Element	Commentary
Response to audit queries	<p>Officers resolved the majority of audit queries in a reasonable time. In some cases, however, we experienced delays, specifically where the Authority's staff who prepared the working papers were not available during the audit.</p> <p>Where such difficulties were encountered, those staff who were available offered assistance in progressing the query as far as possible until the main contact returned.</p>

As a result of the above we have raised a recommendation in respect of the review of the draft financial statements and the level of staffing allocated to the preparation of the financial statements. Details of these recommendations are included in Appendix 1.

Prior year recommendations

In our *Interim Audit Report 2010/11* we commented on the Authority's progress in addressing the recommendations in our *ISA 260 Report 2009/10*.

The Authority has now implemented the majority of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements. The only exception to this in relation to the implementation of Single Status due to the Authority delaying implementation until April 2014.

Appendix 2 provides further details.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

In addition to the standard representations we are seeking specific representations in relation to the completeness of provisions and contingent liabilities.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Telford & Wrekin Council for the year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and Telford & Wrekin 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 4 in accordance with ISA 260.

Management representations

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 template to the Section 151 Officer. We require a signed copy of your management representations before we issue our audit opinion.

In addition to the standard representations we are seeking specific representations in relation to the completeness of provisions and contingent liabilities.

For 2010/11 we are seeking a specific representation in relation to the completeness of provisions and contingent liabilities disclosed on the Balance Sheet.

Other matters

ISA 260 requires us to communicate 'audit matters of governance interest that arise from the audit of the financial statements' to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc.);
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

We follow a new VFM audit approach this year.

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Overview of the new VFM audit approach

For 2010/11, auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit

The key elements of the VFM audit approach are summarised in the diagram below.



Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

The following pages include further details on the specific risk-based work.


We have considered the specific VFM risks we set out in our *VFM Audit Plan 2010/11*.

Key findings are:

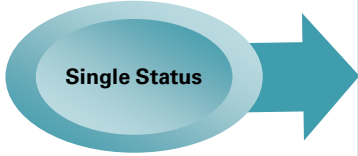

- **The Restructuring Programme is operating to timetable and the Authority expects it to deliver the desired savings.**
- **The implementation of Single Status has been delayed until 2014, with no contribution to the Single Status accrual being made in 2011/12**
- **The risks related to the Railfreight Terminal are mitigated through the terms of the arrangement meaning that the Authority has no obligation to contribute towards losses incurred by the operator.**

Our risk assessment was included in our *VFM Audit Plan 2010/11* and we set out our preliminary findings in respect of these risks in our *Interim Audit Report 2010/11*.

We have completed our work on these risk areas and summarise our findings below, together with any implications for our VFM conclusion.

VFM risk	Focus of work	Preliminary assessment
	<p>The Commission will be publishing a national study in May 2011 on the impact of the 2011/12 local government settlement on councils' finances. The study will examine the approaches taken by councils in responding to the need to make savings and to managing with less.</p> <p>To support the study, we are required to complete a survey which will capture:</p> <ul style="list-style-type: none"> ■ information on the financial stability of the Council following the 2011/12 settlement, focusing in particular on the capacity of the Council's 2011/12 draft budgets to secure this stability; and ■ actions used by the Council to secure the necessary savings in its 2011/12 draft budget and any resulting implications for service provision. <p>The information collected in the survey will be closely based on the financial resilience criterion of the value for money conclusion and forms a mandatory part of auditors' work programmes at all single-tier, county and district councils.</p>	<p>We reported on our work relating to the Audit Commission study as part of our <i>Interim Audit Report 2010/11</i>. The key findings from the report are repeated below and updated where necessary.</p> <p>As at February 2011, the Authority was forecasting to be within budget at year end. This was after setting aside £1.4 million from the restructure and operational efficiencies delivered in 2010/11 for the 2011/12 budget strategy. The year end position showed a reduced use of General Fund balances when compared to the budget.</p> <p>The Authority's Medium Term Financial Plan (MTFP) 2010-13 was based upon the provisional funding settlement it received, with an assumption that there would be a 5% reduction in its Revenue Support Grant and specific grants for both 2011/12 and 2012/13.</p> <p>The Authority has identified those areas with continued demand pressures and, through its financial planning processes, is protecting these areas from funding reductions. Furthermore, additional investment has been made where necessary, such as Adult Social Care which received £1.7 million of reinvested funding and Looked After Children which received an addition £1.4 million.</p> <p>However, it should be noted that we have not undertaken specific audit work to verify the delivery of savings and the Authority must ensure it has robust and appropriate monitoring and reporting mechanisms in operation over this key area.</p>

VFM risk	Focus of work	Preliminary assessment
<p>Service Restructuring Programme</p>	<p>We will review the Council's restructuring programme and assess the robustness of proposals for delivering savings necessary to meet funding reductions.</p> <p>We will meet key officers to discuss the approach for restructuring, the impact on services and the capacity to deliver required savings.</p>	<p>The restructuring steering group which is led by a corporate director reports directly to the Corporate Management Team. The process is well established with direct links to the Authority's savings strategy and is aligned to work involved with Single Status. Union consultation is also being managed in a consistent and thorough way.</p> <p>Detailed, step-by-step, project plans have been created for each stage of the restructuring. Performance against these plans is monitored to ensure deadlines are met and that expected savings are realised. Of the total savings required, 40% will be realised from vacant posts, temporary positions and agency staff savings. Funding of £3.9m has been identified and set aside in relation to redundancies.</p> <p>From a review of the savings achieved to date and the performance monitoring of savings plans, at the current time the Authority would appear to be on track to deliver against the overall timetable and achieve its required savings. However, this is an area which we continue to monitor as part of our ongoing audit work.</p>
<p>Capital Programme</p>	<p>We will review the Council's capital programme and projections of capital receipts. We will discuss with key officers the likelihood of projected receipts materialising, and assess whether necessary action is being taken if projections of receipts change as a result of market conditions.</p>	<p>The newly elected Administration will undertake an immediate review of the capital programme with a view to reducing the Authority's exposure to prudential borrowing, and capital receipt dependency. No decisions will be taken to increase the medium/long term exposure until there is a clear pattern of receipts being delivered, in line with plans.</p> <p>The Authority is no longer moving to a new civic offices development. This has allowed for alternative developments to be undertaken. Current interest indicates that the value of external contributions from this and other capital sales will exceed the original planned value for capital receipts.</p> <p>The Authority is undertaking regular, internal, reviews of planned capital receipts to ensure they are still validly anticipated and the assumed value remains reasonable.</p>

VFM risk	Focus of work	Preliminary assessment
	<p>We will discuss progress in its implementation plan with officers and review the likely financial implications as its pay modelling progresses.</p>	<p>Single Status is being project managed by Organisational Improvement, project scoping and activities are being aligned to the changes resulting from restructuring. Single Status has a well established steering group (led by the corporate director responsible for restructuring) and reports to the Corporate Management Team. There are bi-weekly negotiation meetings with the trade unions.</p> <p>The implementation of Single Status has been delayed until April 2014. In our <i>ISA 260 Report 2009/10</i> we raised a recommendation requiring the Authority to ensure they achieved implementation by June 2011. As a result this our prior year's recommendation has now been superseded by a new recommendation based upon the new implementation date of April 2014.</p>
	<p>We will discuss with relevant officers progress made in securing major customers for the Railfreight Terminal. We will review monitoring of the financial viability of the terminal and the robustness of projections for future use and income.</p>	<p>The Authority provide support and assistance to the Railfreight Terminal operator in seeking new customers through providing local knowledge. However, this is not the Authority's responsibility and resides with the Terminal Operator.</p> <p>The arrangement between the Authority and the Operator is such that the Authority does not receive an annual fixed rental from the lease, but will get a share of any profits in due course. The Authority does not have any obligation to contribute towards any losses incurred by the operator at any point during the lease.</p>

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year prior to the commencement of our substantive audit work.

Priority rating for recommendations		
● Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	● Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	● Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	● (two)	<p>Due to the Council-wide restructure programme, the on-going job evaluations and job specification finalisation the Authority decided to delay the implementation of Single Status until April 2014. Nevertheless, the Authority must now ensure it implements Single Status by April 2014 with appropriate monitoring of milestones through the year to ensure this is achieved.</p> <p>In addition, as implementation progresses, the Authority should ensure that it uses the most up to date information and relevant case law precedents, whilst taking into account any other changing circumstances so that it more accurately reflects the likely financial cost within its Medium Term Financial Strategy. The Authority needs to ensure that further slippage in implementing Single Status is avoided where possible.</p>	<p>The Council has a project plan and resources to meet the current target date of April 2014 and will monitor and take action in respect to any financial implications that may arise. The equal pay risk will be assessed during the pay modelling part of the implementation process.</p> <ul style="list-style-type: none"> ▪ Meredith Evans – Corporate Director ▪ Ken Clarke – Head of Finance ▪ Debbie Germany – Project Manager <p>▪ On-going</p>

Appendix 1: Key issues and recommendations (continued)

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
2	<p>● (two)</p>	<p>As a result of our audit work we identified a large number of presentation issues, casting errors and instances where notes did not agree back to the primary statements. These issues are seen as being indicative on an insufficient level of independent review being undertaken in relation to the draft financial statements.</p> <p>The Authority should ensure that a robust review of the draft financial statements is undertaken so as to ensure that such issues are identified and addressed.</p>	<p>The financial statements were reviewed within the resources and time available to complete the draft Statement of Accounts so that they were available for the beginning of the audit. 2010/11 was a particularly challenging year with the transition to IFRS which was a significant change. Preparation of the accounts for 2010/11 coincided with the recruitment phase of the Finance restructure process so the additional resource allocated to corporate finance to support accounts preparation was not in post when the accounts were prepared. However, this post is now occupied and will be made available to assist with reviewing the draft accounts prior to audit for 2011/12.</p> <ul style="list-style-type: none"> ▪ Ken Clarke - Head of Finance ▪ 2011/12 Financial Statements
3	<p>● (one)</p>	<p>Our audit work highlighted that a substantial portion of the audit differences identified arose due to the changes arising following the move from UK GAAP to IFRS as implemented by the Code.</p> <p>The Authority should undertake a thorough review of the Code and IFRS is undertaken on an annual basis so as to ensure that any changes are identified and actioned in the preparation of the financial statements. In addition, in such key areas, the technical expertise within the Authority may require further improvement and the Authority should identify any knowledge and skill gaps within the team, and implement an action plan which includes provision of further training where required.</p>	<p>As part of the audit fee it had been agreed that KPMG would provide 15 consultancy days specifically to advise and assist with the transition to IFRS. Resources available to complete the Statement of Accounts are limited and the Council was relying on this technical input from KPMG to review working papers and disclosure notes and provide detailed guidance. This was planned to be a separate piece of work prior to the commencement of the audit and a number of documents had been sent to KPMG for review/comment. Whilst 8 days support was provided and was very helpful, 7 of the planned consultancy days were not provided ahead of the audit. Consequently, this meant that there were more findings during the audit. As previously mentioned, the restructure process has allocated additional resource which should assist accounts preparation for 2011/12 which will also be subject to much less change in accounting requirements than 2010/11 which has been an exceptional year..</p> <ul style="list-style-type: none"> ▪ Ken Clarke - Head of Finance ▪ 2011/12 Financial Statements

Appendix 1: Key issues and recommendations (continued)

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
4	<p>● (two)</p>	<p>Currently the responsibility for the preparation of the financial statements and supporting notes resides primarily with the Finance Manager. Due to the pressures involved with this, and the other responsibilities the Finance Manager has with the Authority, it will be necessary to ensure that additional support is offered.</p> <p>The Authority should ensure that additional staffing is allocated to the preparation of the financial statements. Such staffing should also be available to offer support through the audit process.</p>	<p>The new Finance Structure includes a part-time accountant providing support to the Finance Team Leader who prepares the accounts. In addition, reports will be developed in the new Financial Management System to streamline the production of information. It should be noted however that following the restructure process, the Finance team overall is 20% smaller which impacts on the capacity at year end.</p> <ul style="list-style-type: none"> ▪ Ken Clarke - Head of Finance ▪ 2011/12 Financial Statements
5	<p>● (two)</p>	<p>Whilst our discussions with Senior officers, the Leader and two Cabinet Members confirmed that financial monitoring is carried out, we consider that the unprecedented financial pressures would warrant more frequent formal monitoring of the Authority's finances than the current quarterly reporting to Members.</p> <p>The Authority should review if its current arrangements and formats for financial reporting remain appropriate in the context of the current financial pressures. This should consider specifically if :</p> <ul style="list-style-type: none"> ▪ more frequency formal reporting is needed; ▪ a greater level of detail on the savings plans would be beneficial, such as an assessment of the risk attached to the delivery of specific proposals; and ▪ if the focus should be on gross rather than net budgets. 	<p>Although financial monitoring is only taken to Cabinet quarterly, lead Members and SMT receive regular updates in between. Finance Teams work closely with Heads of Service and their management team providing financial advice and guidance throughout the year – providing financial comments/implications to all reports going forward to Cabinet, working on re-structure and service review rationales, supporting the identification and delivery of savings and continually reviewing and updating the Council's rolling budget model/strategy. Savings proposals and the associated risks are reviewed in detail as part of the budget planning process.</p> <ul style="list-style-type: none"> ▪ Ken Clarke - Head of Finance ▪ Ongoing

Appendix 2: Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2009/10*.

Where recommendations have not been implemented they have been included as new recommendations in Appendix 1.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2009/10* and reiterates any recommendations still outstanding.

We identified one recommendation that had not been implemented. This related to the implementation of Single Status. Given the change in the Council's implementation date for Single Status we have replaced this with a new recommendation at Appendix 1.

Number of recommendations that were:	
Included in original report	4
Implemented in year	2
Superseded (see appendix 1)	1
Not accepted	1
Remain outstanding	0

Appendix 3: Audit differences

Key Corrected Audit Differences have been identified as follows:

- Income from Capital Grants where the attached conditions had been met during the year and not been recognised in the Comprehensive Income & Expenditure Account.
- From a review of capital expenditure under the £50,000 de minimis threshold a number of additional assets were identified for inclusion on the Fixed Asset Register. This resulted in impairments being reduced by £11.99m, additional depreciation of £1.23m and a net increase in Property Plant & Equipment of £10.76m

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the Authority's case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Telford & Wrekin Council's financial statements for the year ended 31 March 2011. All of these adjustments have been corrected in the revised set of Financial Statements.

Income and expenditure statement	Adjustments btw. accounting basis & statute	Impact			Basis of audit difference
		Assets	Liabilities	Reserves	
CR Specific Grant Income (£45.518m) DR Other Expenditure £0.022m	DR Movement in Reserves Statement £45.496m				Under the Code Capital Grants are recognised as income when any conditions attached to them have been recognised. The income is then transferred to either the Capital Adjustment Account or Capital Grants Unapplied dependent upon whether or not the expenditure has been incurred. Rather than recognising the income in the Comprehensive Income & Expenditure Account, the Authority had taken it directly to the relevant reserve. In addition, some movements in relation to PFI/Leases had also been taken directly to the appropriate reserve. We identified the same issue in relation to the 2009/10 restatement. The values are as follows: CR Specific Government Grants (£17.858m) CR Other Expenditure (£1.285m) DR General Fund 19.143m

Appendix 3: Audit differences (continued)

Income and expenditure statement	Adjustments btw. accounting basis & statute	Impact			Basis of audit difference
		Assets	Liabilities	Reserves	
<p>CR Impairment (£11.992m)</p> <p>DR Depreciation £1.230m</p>	<p>DR Movement in Reserves Statement £10.762m</p>	<p>DR Property Plant & Equipment £10.762m</p>		<p>CR Capital Adjustment Account (£10.762m)</p>	<p>The Authority operates two de minimis thresholds in relation to capital accounting. The combined effect of these thresholds is that any capital expenditure between £1,000 and £50,000 will be recognised as an addition and then immediately impaired to nil value.</p> <p>During 2010/11 the value of spend falling within this treatment was £21.188m.</p> <p>We requested the Authority to review the assets included within this spend in order to identify additional assets that could be grouped or otherwise recognised and retained on the Fixed Asset Register. As a result of this a number of additional assets were identified, resulting in a reversal of impairments and additional depreciation being recognised.</p>
			<p>DR Provisions £3.682m</p> <p>CR Employee Benefits & Payroll Payables (£3.682m)</p>		<p>The Authority had interpreted the IFRS transitional guidance issued by CIPFA to mean that the value of employee benefits accrued at year end, i.e. untaken annual leave, should be recognised as a provision.</p> <p>Whilst the wording of the CIPFA guidance indicated that this was an acceptable approach, the Code and IFRS require that an accrual be created rather than a provision.</p> <p>The same issues exists in relation to the restated balances for 2009/10 (£3.772m) and 2008/09 (£3.290m).</p>

Appendix 3: Audit differences (continued)

Income and expenditure statement	Adjustments btw. accounting basis & statute	Impact			Basis of audit difference
		Assets	Liabilities	Reserves	
		<p>DR Investment Property £3.173m</p> <p>CR Assets Held for Sale (£3.173m)</p>			<p>We identified that during 2010/11 the Authority had reclassified two assets from Investment Property to Assets Held for Sale.</p> <p>Under IFRS once an asset is classified as Investment Property it remains such until it is disposed of or reclassified as either Inventory or Property, Plant & Equipment.</p>
				<p>DR Revaluation Reserve £3.309m</p> <p>CR Capital Adjustment Account (£3.309m)</p>	<p>The Authority has retained revaluation reserve balances in relation to Investment Properties. As part of the IFRS Restatement all such balances should have been transferred to the Capital Adjustment Account</p> <p>This adjustment impacts upon the IFRS restatements for 2008/09 and 2009/10 in addition to the balances as at 31 March 2011.</p>
<p>DR Investment Income / Expenditure £1.541m</p>	<p>CR Movement in Reserves Statement (£1.541m)</p>			<p>CR Revaluation Reserve (£1.541m)</p> <p>DR Capital Adjustment Account £1.541m</p>	<p>Where revaluation reserves were extant in relation to Investment Properties any in-year fair value losses on such assets had been taken to the Revaluation Reserve. Under IFRS all fair value movements on Investment Properties must be taken to the Comprehensive Income & Expenditure Account.</p> <p>There was a similar adjustment in relation to 2009/10 for an upwards fair value movement of £1,039 which was originally taken to reserves.</p>

Appendix 3: Audit differences (continued)

Income and expenditure statement	Adjustments btw. accounting basis & statute	Impact			Basis of audit difference
		Assets	Liabilities	Reserves	
		DR Prepayments £1.615m	CR Other Payables (£1.615m)		We identified that in preparing the Financial Statements the Authority had netted off prepayments against other creditors rather than including them within debtors.
DR Profit/Loss on Disposal of Non-Current Assets £1.193m CR Impairment (£1.193m)					During 2010/11 the Priorslee School became an Academy. As a result of this the school building no longer belonged to the Authority and required derecognition. The Authority gave effect to the derecognition by impairing the asset in question. The asset should have been treated as a disposal at nil value, with the carrying value being taken as a loss on disposal.
DR Pension Costs (Net Cost of Services) £1.176m	CR Movement in Reserves Statement (£1.176m)				In the relation to 2009/10 the Authority included the Added Years Pension Costs within the Net Cost of Services and then reversed it through the Movement in Reserves. For 2010/11 the value was taken straight to the reserves. A consistent approach, taking the expenditure to Net Cost of Services, should be adopted.

Appendix 3: Audit differences (continued)

Income and expenditure statement	Adjustments btw. accounting basis & statute	Impact			Basis of audit difference
		Assets	Liabilities	Reserves	
		<p>CR Property Plant & Equipment (£0.754m)</p> <p>DR Intangible Assets £0.754m</p>			<p>The Authority has recently implemented a new Financial Ledger system. Whilst this was not completed at 31 March 2011 a significant amount of spend had been incurred in relation to it. This spend had been capitalised as Assets Under Construction within Property Plant & Equipment.</p> <p>The nature of the asset involved, being a software package, is such that it should be recognised as an Intangible Asset.</p>
<p>CR Impairments (£0.033m)</p>	<p>DR Movement in Reserves Statement £0.033m</p>	<p>DR Property Plant & Equipment £0.033m</p>		<p>CR Capital Adjustment Account (£0.033m)</p>	<p>Through a review of the Fixed Asset Register we identified that assets which had been reclassified, as part of the IFRS restatement exercise, and then subsequently revalued at 31 March 2011 had not had the depreciation reversed out as part of the accounting for such revaluation.</p> <p>Further investigation identified that the value of the depreciation had been included within impairments for the year.</p>
CR (£53.574m)	DR £53.574	DR £12.410m	CR (£1.615m)	CR (£10.795m)	Total impact of adjustments

Key Presentational Differences have been identified as follows:

- **The entries in the Other Comprehensive Income line as shown in the Comprehensive Income & Expenditure Account did not conform to the code and did not agree to the value shown in the Movement on Reserves Statement.**
- **The impact of the change from RPI to CPI for defined benefit pension schemes required disclosure as an exceptional item.**

The following table sets out a summary of the presentational differences that have been identified in relation to the draft financial statements.

Issue	Resolution
<p>The Other Comprehensive Income shown on the Comprehensive Income & Expenditure Account included a number of entries which, under the Code, should not have been included. This arose due to a belief that the Statement should agree back to the movement on the General Fund rather than agreeing to the total movement in net worth.</p> <p>In the Movement on Reserves Statement the lines entitled Other Comprehensive Income and Total Comprehensive Income did not agree to the Comprehensive Income & Expenditure Account. This arose from the above issue and the need to ensure that the Statement reconciled back to the movements in reserve balances.</p>	<p>The entries in Other Comprehensive Income should relate only to those entries specifically named in the Code. For the Authority these would be:</p> <ul style="list-style-type: none"> ■ Revaluation gains and losses on Property Plant & Equipment; ■ Revaluation gains and losses on Available for Sale Financial Instruments; and ■ Actuarial gains and losses. <p>The Movement on Reserves Statement and the Comprehensive Income & Expenditure Account should agree.</p>
<p>The impact of the change from RPI to CPI estimating liabilities under the Local Government Defined Benefit Pension Scheme amounted to £26.371m. This amount had been included within the Non Distributed Costs line in the Net Cost of Services.</p>	<p>Given the value of the impact, the appropriate treatment was to include a separate line identifying an exceptional item as a result of the RPI/CPI change.</p>
<p>The Code requires that the names of all employees earning in excess of £150k should be disclosed in the financial statements. In the draft financial statements only post titles were used to identify senior management in this disclosure.</p>	<p>Whilst the use of post titles is generally acceptable the note required amendment in relation to the one individual earning in excess of £150k.</p>
<p>The note disclosing external audit costs referred to payments made to KPMG for statutory inspections. These inspections had been undertaken by the Audit Commission rather than KPMG.</p> <p>In addition, the note disclosed the fees for grant certification to be £17k rather than the £35k set out in our <i>Grant Certification Report 2009/10</i>.</p>	<p>The Note was amended to refer to the correct entities and include the correct values.</p>
<p>The narrative included in the financial statements included outdated references to changes in PFI accounting, the RPI/CPI change for pensions and the application of FRS</p>	<p>The narrative required amending and updating in relation to these issues, particularly so as to ensure that references to accounting standards were to IFRS.</p>
<p>A number of further casting mistakes and presentational issues were identified during the audit, including wording changes, removal of lines and notes with nil value for all relevant years, and the adoption of consistent formatting throughout the financial statements.</p>	

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

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 Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that 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 Standing guidance for local government auditors (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.

- 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.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

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 the 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.

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 & Wrekin Council for the financial year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and Telford & Wrekin 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 ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

In addition to the standard representations we are seeking specific representations in relation to the completeness of provisions and contingent liabilities.

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Telford & Wrekin Council (“the Authority”), for the year ended 31 March 2011, for the purpose of expressing an opinion as to whether these:

- i. give a true and fair view of the financial position of the Authority as at 31 March 2011 and of the Authority’s expenditure and income for the year then ended; and
- ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
 - give a true and fair view of the financial position of the Authority as at 31 March 2011 and of the Authority’s expenditure and income for the year then ended; and
 - have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

The financial statements have been prepared on a going concern

basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 require adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

7. The Authority has disclosed to you all information in relation to:
- a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further, the Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority

Accounting in the United Kingdom 2010/11.

10. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that:
 - are statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - are funded or unfunded; and
 - are approved or unapproved,
 have been identified and properly accounted for; and
 - b) all settlements and curtailments have been identified and properly accounted for.
11. The Authority confirms that it has provided you with all relevant information regarding the existence and completeness of any provisions and contingent liabilities.

This letter was tabled and agreed at the meeting of the Audit Committee on 20 September 2011

Yours faithfully,

Chair of the Audit Committee

Chief Financial Officer

Optional cc: Audit Committee



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