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Annual Audit Letter 2010/11

Telford & Wrekin Council

30 November 2011



Change

-0.430

-0.990

0.050

0.170

0.280

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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 findings from our 2010/11 audit of Telford & Wrekin Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2010/11 financial statements and the 2010/11 VFM conclusion.

VFM conclusion	<p>We issued an unqualified value for money ('VFM') conclusion for 2010/11 on 29 September 2011.</p> <p>This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
VFM risk areas	<p>We identified a number of significant risks to our VFM conclusion and considered the arrangements you have put in place to mitigate these.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> ■ The Restructuring Programme is operating to timetable and the Authority anticipates that it will deliver the desired savings. ■ The implementation of Single Status has been delayed until 2014, with no further 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.
Audit opinion	<p>We issued an unqualified opinion on your financial statements on 29 September 2011. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>
Financial statements audit	<p>Our work in relation to the financial statements resulted in the following significant findings:</p> <ul style="list-style-type: none"> ■ A total of 11 audit adjustments with an overall gross value of £114.6m. These adjustments impacted upon the surplus on provision of services for both 2009/10 and 2010/11 and also upon the net worth for 2010/11. There was no impact upon the General Fund balance in either year. ■ The Authority is currently operating two deminimis 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. In relation to such thresholds the Code states that they should be harmonised. Council Officers have reviewed the policy and proposed revised wording which we are currently reviewing. We have agreed to reach a resolution in relation to this by the end of January 2012. ■ There were a large number of presentational errors in the draft financial statements arising from the complexity of implementation of IFRS.

We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

Annual Governance Statement	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding. No adjustments were required to the <i>Annual Governance Statement</i>.</p>
High priority recommendations	<p>We raised one high priority recommendation as a result of our 2010/11 work. The recommendation related to the need to 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> <p>This is detailed more fully in Appendix 1 together with the action plan agreed by management.</p> <p>We will formally follow up this recommendation, and all other recommendations raised, as part of our 2011/12 work.</p>
Elector questions and objections	<p>During the 2009/10 audit we received a total of four elector questions and objections. We have completed the work in relation to three of these questions and have issued our responses. In relation to the final issue we are in discussions with the Authority and are drafting a Statement of Reasons Letter to the objectors and their representative and will report back to the Authority in due course.</p> <p>No elector questions or objections were raised to date during the 2010/11 audit.</p>
Certificate	<p>We have not yet issued our certificates on in relation to either 2009/10 or 2010/11. The delay in issuing these certificates relates to ongoing work in relation to an elector objection raised during the 2009/10 audit process. We are currently finalising our work in relation this objection. As a result of this we cannot currently issue either certificate.</p> <p>Once we have concluded the objection we will issue both certificates within the appropriate timeframe.</p> <p>The certificates will confirm that we have concluded the audit for 2009/10 and 2010/11 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i>.</p>
Audit fee	<p>Our fee for 2010/11 was £290,700, excluding VAT. This compares to a planned fee of £287,200. The increase in fee reflects additional work undertaken in relation to the audit of the Authority's financial statements. We have also charged a further £37,640 in relation to the ongoing work on elector challenges and questions raised in relation to the 2009/10 financial statements. Further detail is contained in Appendix 3.</p>

Appendix 1: Key issues and recommendations

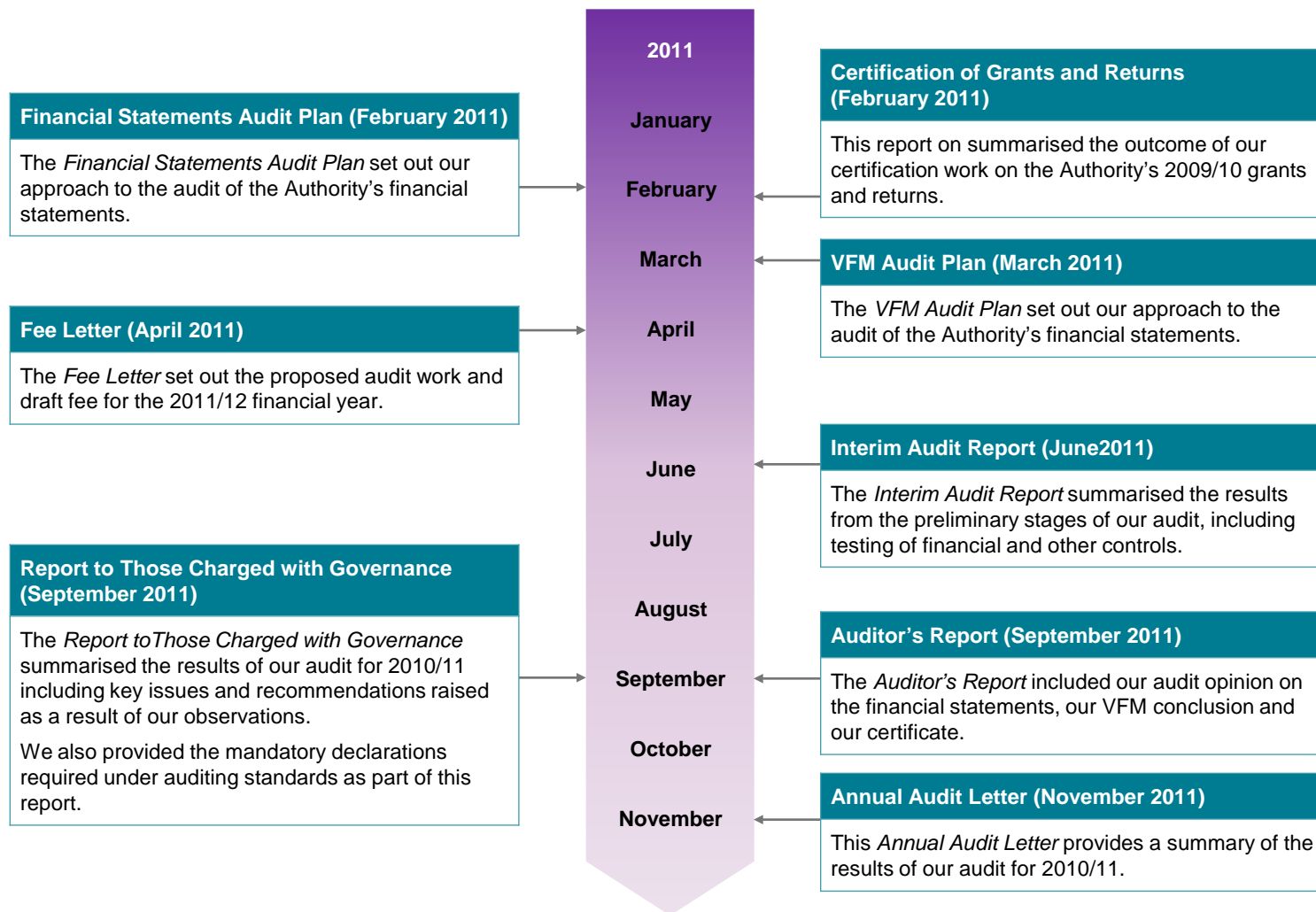
This appendix summarises the high priority recommendation that we identified during our 2010/11 audit, along with your responses to them.

Lower and medium priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

No.	Issue and recommendation	Management response/ responsible officer/ due date
1	<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 2: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.



This appendix provides information on our final fees for 2010/11.

To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the outturn against the 2010/11 planned external audit fee.

External audit

Our final fee for the 2010/11 audit of the Authority was £290,700. This compares to a planned fee of £287,200.

The reason for this variance is an increased fee for the audit of the financial statements reflecting additional costs incurred in carrying out the 2010/11 final accounts audit of £3,500 over and above our initial estimate as at April 2010.

In addition to the fee for the 2010/11 audit we have charged a £37,640, to date, for additional work which was not allowed for in our initial plan. This was for ongoing work in relation to the resolution of four elector objections and questions, and the review of officer severance payments made during the year raised during the 2009/10 audit.

Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2010/11* which we are due to issue in February 2012.

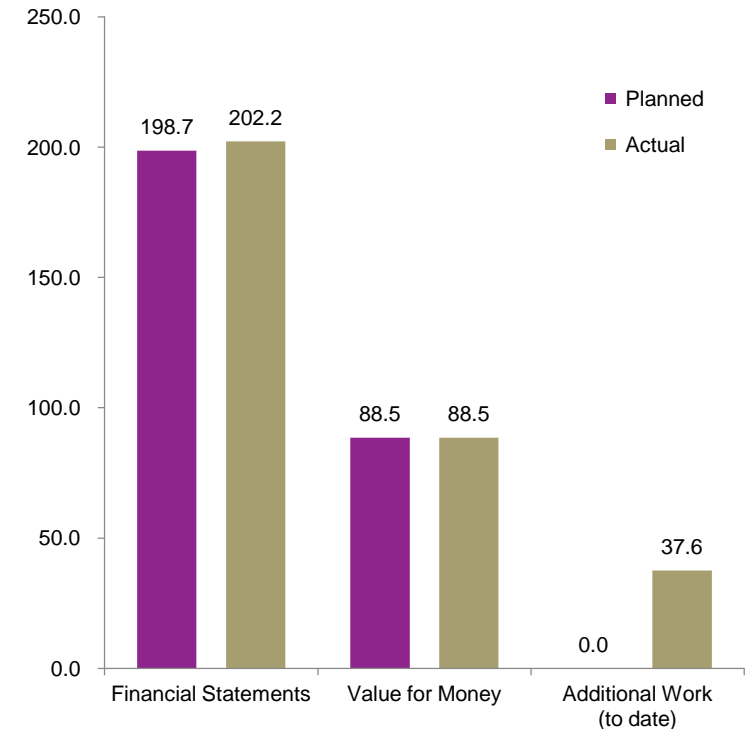
Other services

We have not undertaken any other services not related to our responsibilities under Audit Commission's *Code of Audit Practice*.

2011/12 Fee

In April 2011 we issued our fee letter for the 2011/12 audit of the Authority. This set out a fee of £258,480 which represents a significant decrease compared to the 2010/11 fee set out above.

External audit fees 2010/11 (£000's)





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