KPMG

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Report to those charged with governance (ISA 260) 2012/13

Telford & Wrekin Council

September 2013

Contents

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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, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

Section one

Introduction

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 2013; and**
- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

Financial statements

Our *External Audit Plan 2012/13* presented to you in March 2013. set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in two tranches during March 2013 (interim audit) and July 2013 (year end audit). We carried out the following work:

Control Evaluation	■ Evaluate and test selected controls over key financial systems. ■ Review internal audit function. ■ Review accounts production process. ■ Review progress on critical accounting matters.
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

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2012/13 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority, other inspectorates and review agencies in relation to these risk areas.

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 2012/13 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.

Headlines

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

Proposed audit opinion	Our work is ongoing and we are currently undertaking our internal review process. Based on the work undertaken to date we anticipate issuing an unqualified audit opinion by 30 September 2013. We will also expect to report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit identified one audit adjustment with a total value of £0.4 million. The adjustment was in relation to an error with the prior period restatement arising from a change in accounting policy for schools acquiring trust status. The prior year adjustment required previous upward revaluations to be reversed. The Authority entered the incorrect journals when undertaking this adjustment. The net impact of this adjustment to the re-stated 2011/12 figures is as follows: ▪ Increase the deficit on provision of services for the year 2011/12 by £0.4 million; and ▪ Increase the other comprehensive income for the year 2011/12 by £0.4 million. There is no impact on the General Fund balance as a result of this amendment. We have included significant audit adjustments at Appendix 3. This has been adjusted by the Authority.
Accounts production and audit process	We have noted an improvement in the quality of the accounts and some of the supporting working papers. Officers dealt efficiently with our audit queries and the audit process has been completed within the planned timescales. This was facilitated by the use of the SharePoint site to share working papers and track audit queries. We will hold a debrief meeting with the Authority after the close of the audit to help Officers identify all pertinent learning points and enable early preparation for next year's audit. The Authority has implemented the recommendation in our ISA 260 Report 2011/12 relating to the financial statements. The only recommendations that have not been fully implemented relate to the review of the financial statements by the Audit Committee prior to the commencement of the audit and the implementation of Single Status.
Control environment	The Authority's organisation and IT control environment is effective overall, and controls over the key financial systems are sound. We are satisfied that internal audit is compliant with the Code of Practice for Internal Audit in Local Government and we have again been able to place reliance on their work where this was relevant to our work. Two control recommendations were identified in relation to the cash book reconciliation and the completion of fixed asset register reconciliations.

Headlines (continued)

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

Completion	At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter. This will be provided by the Authority at the Audit Committee meeting on 17 September 2013 as required. 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.
VFM conclusion and risk areas	Subject to our ongoing internal review process, we have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2013.

Proposed opinion and audit differences

Our audit identified one audit adjustment relating to the prior period adjustment disclosure.

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

Proposed audit opinion

Subject to completion of our internal review process, we anticipate issuing an unqualified audit opinion by 30 September 2013.

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 one audit difference requiring correction, which we set out in Appendix 3. The Authority has agreed to amend the financial statements for this adjustment.

There is no net impact on the General Fund as a result of our audit adjustments.

In addition, we identified forty-five presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting the United Kingdom 2012/13 ('the Code') and to enhance the narrative in the financial statements. The Authority will be addressing these where significant.

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; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Accounts production and audit process

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

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

The Authority has implemented the recommendation raised in our *ISA 260 Report 2011/12* relating to the financial statements.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant 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	The quality of the financial statements has improved from the prior year reflected in a significant reduction in both the overall number and impact of adjustments. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 28 June 2013.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 1 March 2013 and discussed with Finance Manager and Finance Team Leader, set out our working paper requirements for the audit. The quality of most working papers has improved from the prior year. In a small number of areas working papers were reliant on complex underlying processes, involved a large number of manual adjustments, and did not always provide a clear audit trail. Additional explanations were required from officers in these instances. We will conduct a debrief meeting with finance to discuss areas for further improvement. This will include the production of breakdowns of year-end debtors and creditors in a format which allows for sample selection without significant manipulation.
Response to audit queries	Officers resolved audit queries in a reasonable time. This was facilitated by the use of the SharePoint site which was used to share working papers and track audit queries.

Prior year recommendations

As part of our audit we have followed up the Authority's progress in addressing the recommendations in prior years’ ISA 260 report.

The Authority has implemented the recommendation raised in our *ISA 260 Report 2011/12* relating to the correct identification of, and accounting for, schools acquiring academy status.

The following recommendations which were originally raised in our *ISA 260 Report 2010/11* are in progress:

- the implementation of Single Status – this is an ongoing process scheduled to be completed in April 2014. The balance sheet as at 31 March 2013 includes an accrual in relation to the estimated liabilities to be incurred upon implementation; and
- the review of the draft financial statements – this was enhanced in comparison to that completed in prior years, but the Audit Committee did not consider the accounts prior to commencement of the audit, which we recommend as best practice. We understand that a copy of the draft accounts was provided to Members on 28 June.

Appendix 2 provides further details.

Organisational and IT control environment

Your organisational and IT control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

In completing this work we undertook testing of the key controls and processes operating in relation to the Authority's core IT systems relevant to our financial statements audit.

Key findings

We consider that your organisational and IT controls are effective overall.

Aspect	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
IT controls:	
Access to systems and data	3
System changes and maintenance	3
Development of new systems and applications	3
Computer operations and end-user computing	3

Key:
- 1 Significant gaps in the control environment.
- 2 Deficiencies in respect of individual controls.
- 3 Generally sound control environment.

Review of internal audit

Internal audit fully complies with the *Code of Practice for Internal Audit in Local Government.*

We were able to place reliance on their work on the key financial systems.

Work completed

The scope of the work of your internal auditors and their findings inform our audit risk assessment.

We work with your internal auditors to assess the control framework for certain key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

As we relied on internal audit's work in respect of the Authority's key financial systems, auditing standards required us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

For 2012/13, the *Code of Practice for Internal Audit in Local Government* defined the way in which the internal audit service should undertake its functions. During 2012/13 we updated our assessment of Internal Audit against the eleven standards set out in the Code. A full assessment is not required on an annual basis.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them.

Key findings

Based on the self-assessment performed by internal audit, our assessment of their files, attendance at Audit Committee and regular meetings during the course of the year, internal audit are compliant with the *Code of Practice for Internal Audit in Local Government*.

We did not identify any significant issues with internal audit's work and are pleased to report that we are again able to place full reliance on internal audit's work on the key financial systems.

Since April 2013, the United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The PSIAS replace the *Code of Practice for Internal Audit in Local Government*. Additional guidance for local authorities is included in the *Local Government Application Note* on the PSIAS.

We will assess internal audit against these standards in future audit periods.

Controls over key financial systems

The controls over the majority of the financial systems are sound.

However, there are some weaknesses in respect of the cash control environment.

We amended our audit strategy to complete additional substantive work in this area at year-end.

Work completed

We reviewed the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

We worked with your internal auditors to update our understanding of some of the Authority's key financial processes where these are relevant to our final accounts audit.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the level of substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with the internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on our assessment of the work of your internal auditors, the controls over the majority of the financial systems are sound.

We noted some weaknesses in respect of individual financial systems that impacted on our audit:

- Year-end cash book reconciliation: We identified a small variance between the cash book and the general ledger. This resulted from a formula error in the working papers. In addition, however, we identified that the reconciliation includes a line for "over/under banking" which is essentially an unreconciled difference. Together these amounted to an unreconciled difference of £3k; and
- Fixed Asset Register reconciliation: We identified that the Authority's reconciliation of its Fixed Asset Register to the General Ledger as at 31 March 2013 was not clearly documented. We found through our own reconciliation that the fixed asset register did reconcile with the general ledger.

We have included recommendations in Appendix 1.

The weaknesses identified meant that we had to amend our audit strategy and complete additional substantive work at year-end.

Completion

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.

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 2013, 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 Assistant Director: Finance, Audit & Information Governance a draft of which is reproduced in Appendix 5. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc)

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2012/13 financial statements.

VFM conclusion

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.

Background

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.

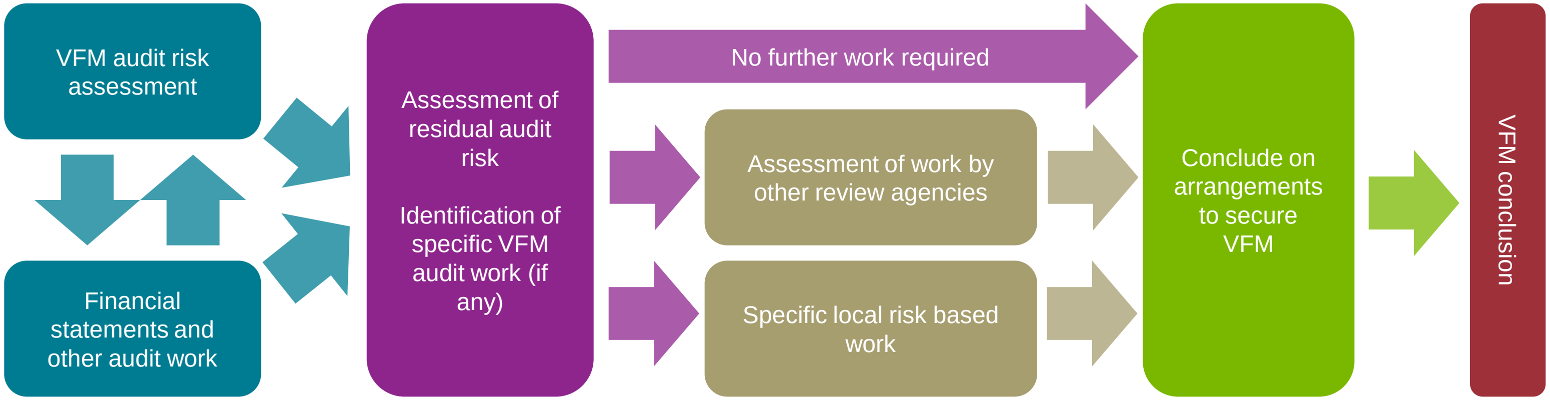
The key elements of the VFM audit approach are summarised in the diagram below.

Conclusion

Based on the work that we have undertaken to date, 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 page includes further details of our VFM risk assessment.



Specific VFM risks

We identified one specific VFM risk.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our Audit Plan we have

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, other inspectorates and review agencies in relation to these risk areas.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

Key VFM risk	Risk description and link to VFM conclusion	Findings
	As at February 2013, the Authority was forecasting that it would deliver its 2012/13 budget in overall terms. This included a savings programme totalling £19 million. The Authority estimated that it would need to deliver a further £7m in savings during 2013/14 to address further reductions to local authority funding and continued cost pressures. This budget gap will increase to £21m in 2014/15 and £31m in 2015/16. In relation to the 2013/14 budget gap, the Authority was proposing to: ■ use a 1.9% Council Tax increase to generate £0.9m of additional revenue; ■ implement savings plans worth £8.6m; and ■ additional income of £0.1m arising through the Authority's "business winning" approach. This risk related to both VFM Criterion.	The Authority continues to progress its savings plans and reports to the Cabinet on progress made as part of its regular reporting processes. No significant delays in achieving savings have been identified to date through these monitoring processes. The Authority reported an underspend of £0.055m in 2012/13 as a result of successful delivery of savings plans. Whilst there were some directorates which encountered overspends, these were offset by the identification of additional savings opportunities during the year. The positive outturn position has enabled the Authority to contribute £2.5m to reserves to support the 2013/14 budget strategy. In relation to future savings, the Authority has established savings plans for 2013/14 and is in the process of finalising plans for future periods. These plans identify savings throughout the organisation and are being monitored in an appropriate manner.

Appendix 1: Key issues and recommendations

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.

Priority rating for recommendations		
❶ ***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.	❷ ***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.	❸ ***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	❷	**Review of year-end cash reconciliation** Our audit work identified that the unpresented cheque balance which forms part of the year-end cash book reconciliation was incorrect due to a formula error. This resulted in a variance between the cash book balance and the general ledger. The variance identified was not significant. In order to confirm this was an isolated error we reviewed all of the in-year cash reconciliations and no issues were identified. The error related to the year-end reconciliation only. In addition, we identified that the reconciliation includes a line entitled "over/under banking" which is essentially an unreconciled difference. This is not material and has decreased in value over the year. The overall unreconciled difference amounted to £3k. The Authority should ensure that reconciliations are thoroughly reviewed by a second officer and any un-reconciled balances are fully investigated. The Authority should also ensure that the reconciliation clearly identifies any unreconciled differences and that this is cleared as soon as possible. The control only provides assurance when it is fully reconciled with all differences being fully explained.	The error occurred as a result of a system change which has now been rectified and will therefore not recur. A total of around £1.8bn transactions are processed through the cashbook each year. Staff will endeavour to minimise any unreconciled balances and processes will be reviewed.

Appendix 1: Key issues and recommendations (continued)

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.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	2	**Fixed Asset Register reconciliation** As a result of our work around fixed assets, we identified that the Authority's reconciliation of its Fixed Asset Register to the General Ledger as at 31 March 2013 was not clearly documented. It was not clear what the reconciling items had arisen and what action had been taken to clear any reconciling items. Whilst we were able to perform our own reconciliation without any issues being identified, the Authority should ensure that a formal reconciliation is undertaken, and appropriately documented, on an annual basis.	Suggestions for aiding the audit team's review of this reconciliation will be discussed at the planned post audit review meeting.

Appendix 2: Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our prior *ISA 260 Reports.*

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Reports* for prior years and re-iterates any recommendations still outstanding.

Where recommendations raised in previous reports have not been fully implemented, the Authority should update plans to ensure these identified weaknesses are fully addressed as soon as possible.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	2

No.	Risk	Recommendation	Officer responsible and due date	Status as at September 2013
2	2	**Single Status** 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.	Jonathan Eatough (Assistant Director: Law, Democracy & Public Protection) Ongoing	**In progress** The Authority is continuing to make progress towards the implementation date of April 2014 and is working with Unions and legal advisors in order to ensure that the process runs smoothly and the legal requirements are met.
3	2	**Review of financial statements** 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.	Ken Clarke (Assistant Director: Finance, Audit & Information Governance) 2011/12 Financial Statements	**In progress** Whilst the Authority has improved the quality of the review process undertaken in relation to its draft financial statements, the Audit Committee did not consider the draft version prior to our audit commencing. We recommend this as a point of best practice. We understand that Members were emailed a draft copy of the accounts on 28 June.

Appendix 3: Audit differences

This appendix sets out the significant audit differences. Management have agreed that these will be adjusted.

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 2013.

We identified an adjustment in relation to the accounting entries processed in order to account for a change in the treatment of schools achieving Trust status. This adjustment impacted upon the restated results for prior periods as presented in the final version of the financial statements.

	Impact £'000					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
Impacting upon 2011/12 (restated) results and figures						
2	CR Other Operating Expenditure £402 DR Other comprehensive income £402	CR Adjustments between accounting basis & funding basis under Regulations £402			DR Revaluation Reserve £402	The Prior Period Adjustments resulting from the change in accounting policy for schools acquiring Trust status required reversals of previous upward revaluations. Management had initially adjusted for this by reducing other operating income rather than revaluation gains in the revaluation reserve and other comprehensive income. The debits and credits detailed on this page correct the journal made by management.
	Nil	**Cr £402**	**Nil**	**Nil**	**Dr £402**	**Total impact of adjustments**

Uncorrected audit differences

We confirm that there are no unadjusted audit differences to report.

Appendix 4: Declaration of independence and objectivity

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. We do this in our Annual Audit Letter.

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.

Appendix 4: Declaration of independence and objectivity (continued)

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. 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 2013, 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.

Appendix 5: Draft management representation letter

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.

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 2013, for the purpose of expressing an opinion as to whether these:

i. give a true and fair view of the financial position of Telford & Wrekin Council as at 31 March 2013 and of its expenditure and income for the year then ended; and

ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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 2013 and of the Authority's expenditure and income for the year then ended; and
   - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

   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 2012/13 require adjustment or disclosure have been adjusted or disclosed.
4. In respect of the restatement made to account for a change in accounting policies in the prior period financial statements the Authority confirms that the restatement is appropriate.

Information provided

5. 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.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. 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.

Appendix 5: Draft management representation letter

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.

8. 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.

9. 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.

10. 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 2012/13 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

11. 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 2012/13.

    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 2012/13.

12. 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.

This letter was tabled and agreed at the meeting of the Audit Committee on 17th September 2013.

Yours faithfully,

Chair of the Audit Committee, Chief Financial Officer cutting through complexity™