



cutting through complexity™

Report to those charged with governance (ISA 260) 2013/14

Telford & Wrekin Council

September 2014



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1. Key issues and recommendations
2. Declaration of independence and objectivity

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 Ian Pennington, 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 0303 4448 330.

This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2014; and
- our assessment of the Authority's arrangements to secure value for money.

Scope of this report

This report summarises the key findings arising from:

- our audit work at Telford & Wrekin Council ('the Authority') in relation to the 2013/14 financial statements; and
- the work to support our 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2013/14*, presented to you in January 2014, set out the four stages of our financial statements audit process.



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 during March 2014 (interim audit) and July 2014 (year end audit).

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

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and 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 our key findings from our audit work in relation to the 2013/14 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

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. Sections three and four of this report provide further details on each area.

| | |
|--|---|
| Proposed audit opinion | Our work is significantly complete and we are currently undertaking our internal review process. We anticipate issuing an unqualified audit opinion on the Authority's financial statements on 16 September 2014. We also anticipate reporting that the wording of your Annual Governance Statement accords with our understanding. |
| Audit adjustments | We are pleased to report that our audit of your financial statements did not identify any material adjustments. We identified a number of non-trivial adjustments of a presentational nature, and the Authority has adjusted these accordingly. There was no impact on the General Fund. |
| Accounts production and audit process | <p>The Authority has good processes in place for the production of the accounts and the majority of supporting working papers were of good quality. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.</p> <p>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.</p> <p>Of the recommendations raised in previous years only one has not been fully addressed. This relates to the implementation of Single Status which is still an ongoing matter for the Authority.</p> |
| Control environment | <p>The Authority's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems.</p> <p>As part of our controls work we undertook a review of the work of internal audit. Our review did not identify any significant issues and we were able to fully rely on their work.</p> |
| Completion | <p>At the date of this report our audit of the financial statements is substantially complete. Our work regarding payroll costs is on-going, however we anticipate completing this ahead of the Audit Committee. Before we can issue our opinion we require a signed 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> |
| VFM conclusion and risk areas | <p>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.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion on 16 September 2014.</p> |

We have identified no issues in the course of the audit of the audit that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements on 16 September 2014.

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

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 16 September 2014.

We have received a challenge to the accounts from a member of the public, and are carrying out work on the question. This means that we will be unable to certify the audit as complete until we have dealt with the matter.

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.

We did not identify any material misstatements. We identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. The Authority has addressed all of these adjustments.

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.

We have made comments in respect of its format and content which the Authority has agreed to amend.

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

In our *External Audit Plan 2013/14*, presented to you in January 2014, we identified the key risks affecting the Authority's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.


Additionally, we considered the risk of management override of

controls, which is a standard risk for all organisations.

Our controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any issues.

| Key audit risk | Issue | Findings |
|----------------|--|--|
| | <p>Following a balance sheet efficiency review, the Authority revised its accounting policy on the capitalisation of borrowing costs. This revision resulted in borrowing costs being capitalised as part of the cost of constructing fixed assets and subsequently charged to the Income & Expenditure account as part of the annual depreciation charge.</p> <p>In addition, the Authority has changed its methodology for calculating the Minimum Revenue Provision (MRP) from 2013/14 onwards - a move from a straight line approach to the annuity method, which will defer more of the cost to later years. As well as changing the calculation method going forward, the Authority reassessed historic charges so as to be in accordance with the annuity method.</p> | <p>We reviewed the accounting policy changes to ensure that they comply with the Code of Practice and that have been accounted for correctly. We also tested the revised MRP calculations to confirm their accuracy and that the required accounting entries have been properly processed and disclosed.</p> <p>We did not identify any issues from our testing.</p> |

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

| Key audit risk | Issue | Findings |
|---|---|---|
|  | <p>During the year, the Local Government Pension Scheme for Shropshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013, in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pension assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014.</p> <p>There is an audit risk that the data provided to the actuary for this exercise is inaccurate, which could lead to errors in the actuarial figures in the accounts. Most of the data is provided to the actuary by Shropshire County Council, who administer the Pension Fund.</p> | <p>We have undertaken detailed testing to ensure that the Authority has correctly accounted for the results of the triennial valuation.</p> <p>We have also confirmed that appropriate processes and controls have been implemented to ensure that data provided for the purposes of the valuation is accurate and complete. Our testing did not identify any issues in relation to the operation effectiveness of these controls.</p> <p>In order to provide the actuarial valuation, the Pension fund's actuary, Mercers, made a series of assumptions in relation to factors such as discount rates, salary inflation and mortality figures. We have benchmarked these assumptions against our expectations and found no significant issues.</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 planned timescales.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13*.

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 | <p>The quality of the financial statements has improved from the prior year reflected in a reduction in number and impact of adjustments.</p> <p>We consider that accounting practices are appropriate.</p> |
| Completeness of draft accounts | <p>We received a complete set of draft accounts on 30 June 2014 in accordance with deadlines.</p> |
| Quality of supporting working papers | <p>Our <i>Accounts Audit Protocol</i>, which we issued on 21 February 2014 and discussed with the Finance Manager, set out our working paper requirements for the audit.</p> <p>The Authority has made improvements to the quality of working papers provided. However, in a small number of areas, working papers still rely on complex underlying processes, with a large number of manual adjustments, and do not always provide a clear audit trail (for example, movements in reserve balances). Additional explanations were required from officers in these instances, and resulted in changes to the analysis in the accounts.</p> |

| Element | Commentary |
|----------------------------------|---|
| Response to audit queries | <p>Officers resolved audit queries in a reasonable time. This was facilitated by the use of the Authority's SharePoint site which was used to share working papers and track audit queries.</p> |

As a result of the above we have raised one recommendation in respect of the Authority's working papers which is included in Appendix 1.

Prior year recommendations

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

The Authority has implemented all of the recommendations raised in our *ISA 260 Report 2012/13*, although there are further improvements needed to the analysis of debtors and creditors (see Appendix 1).

We raised a recommendation in our *ISA 260 Report 2010/11* regarding the implementation of single status for the Authority's workforce. We noted in our *ISA 260 Report 2012/13* that implementation had been delayed until April 2014; however, at the date of this report, this is still in progress. The balance sheet as at 31 March 2014 includes a £16.3m provision including schools provision (2013: £15.9m), for the estimated liabilities to be incurred upon implementation. The Authority has presented the liability within provisions this year, rather than within creditors, reflecting the uncertainty surrounding the estimate. We agree that this is the appropriate treatment.

The Authority's organisation and IT control environment is effective, and controls over the key financial systems are sound.

Following our assessment of internal audit, we were able to place reliance on their work on the key financial systems.

During March 2014 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational control environment

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 therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

We found that your organisational control environment is effective overall.

Review of Internal Audit

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.

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

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

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

We also reviewed internal audit's self assessment against the United Kingdom Public Sector Internal Audit Standards (PSIAS), which have applied to local authorities since April 2013.

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, we have not identified any significant matters which would indicate internal audit are not compliant with the PSIAS.

The PSIAS require public sector organisations to commission an external review of internal audit; our work does not constitute an external review with respect to this requirement.

Controls over key financial systems

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

Based on the work of your internal auditors, and our own work on controls over the year end process, the controls over the financial systems are sound.

We noted some minor weaknesses in respect of individual financial system controls. Internal audit have already included recommendations in their reports as appropriate.

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 and Wrekin Council for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Telford and 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 and Information Governance for presentation to the Audit Committee. 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 2013/14 financial statements.

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.



Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

The following pages include further details of our VFM risk assessment and our specific risk-based work.

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 | ✓ |

We identified two specific VFM risks.

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 *External 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; and


- considered the results of relevant work by the Authority, 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.

We concluded that we needed to carry out additional work for some of these risks. This work is now complete and we also report on this below.

| Key VFM risk | Risk description and link to VFM conclusion | Assessment |
|---|--|---|
|  | <p>As at December 2013, the Authority forecast that it would deliver its 2013/14 budget in overall terms. This included a savings programme for 2013/14 totalling £11.3m (including savings identified in year).</p> <p>The Authority estimates that its funding gap will increase to £11.4m in 2014/15 rising to £22.3m in 2015/16. Against a backdrop of continued demand pressures in Adult Social Care and Children's Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability. The Authority is forecasting future funding gaps of around £10-13m in each of the following 3 years.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p> | <p>The Authority continues to progress its savings plans and reports to the Cabinet on progress made as part of its regular financial monitoring processes. No significant delays in achieving savings have been identified to date through these monitoring processes.</p> <p>The Authority reported an under-spend of £0.100m in 2013/14 as a result of successful delivery of its 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 £4.6m to reserves to support the 2014/15 budget strategy.</p> <p>In relation to future savings, the Authority has established savings plans for 2014/15 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.</p> <p>Specific risk based work required: No</p> |

| Key VFM risk | Risk description and link to VFM conclusion | Assessment |
|---|---|---|
|  <p>New projects & Contracts</p> | <p>During 2012/13 the Authority re-tendered the contract for the collection, treatment and disposal of its waste in attempt to maximise savings. The 24 year contract was awarded to Veolia Environmental Services in October 2013.</p> <p>As part of its income strategy the Authority identified two significant commercial opportunities. One which involves the development of new homes for the private rental market. The Authority committed to undertake a detailed feasibility study, beginning in 2014 to assess the viability of the project. The costs associated with this study are approximately £1.1m in 2013/14.</p> <p>Similarly, the Authority has committed to costs of £0.1m regarding its energy strategy and the proposal to develop a commercial-scale solar farm on Authority-owned land.</p> <p>This is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion.</p> | <p>Waste Management Contract</p> <p>Following publication of the Contract Notice through OJEU on 6 July 2012, the Council has worked on a procurement process to replace waste management contracts, which begin to expire from April 2014 up until 2019, with a single Contract. The Council set an affordability limit of £137.43m for the 24 year contact.</p> <p>The Council received two final bids in July 2013. The bids were evaluated against the Council's published Evaluation model and the preferred bidder was approved by Cabinet on 8 October 2013.</p> <p>Commercial projects</p> <p>The Authority obtained Cabinet approval to undertake feasibility studies for both commercial projects. The costs incurred by the Authority in 2013/14 - £0.977m (new homes) and £0.100m (solar farm) - were in line with values approved by Cabinet. These sums have been included within Assets under Construction on the Authority's March 2014 balance sheet, which is the appropriate accounting treatment. If the projects were not to proceed, then the Authority would at that time need to write the costs off.</p> <p>Specific risk based work required: Yes</p> <p>We reviewed the costs incurred in 2013/14 for each project, and the approval processes which the Authority has taken to ensure that this represents value for money, in order to inform our overall VFM conclusion.</p> <p>We also reviewed the accounting treatment applied to these transactions to confirm expenditure had been accounted for appropriately.</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.

| Priority rating for recommendations | | |
|--|--|---|
| <p>1 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.</p> | <p>2 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.</p> | <p>3 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.</p> |

| No. | Risk | Issue and recommendation | Management response / responsible officer / due date |
|-----|----------|--|---|
| 1 | 3 | <p>Debtor and Creditor Working Papers</p> <p>We reported in 2012/13 that we experienced some difficulties completing the debtors and creditors testing efficiently due to the format of the working papers provided.</p> <p>Although improvements have been made to the 2013/14 working papers, the information still required significant manipulation to allow testing.</p> <p>Where such manipulation is required it reduces the efficiency of the audit process and results in additional pressures for both the audit team and finance officers.</p> <p>Recommendation</p> <p>The Authority, working with the audit team, should identify an approach which will allow for debtors and creditors data to be made available for audit without the need for extensive manipulation.</p> | <p>Towards the end of the audit process, officers were able to provide a more useful report, however further work is needed in advance of next years' audit to specify and, where possible, develop reports which more closely meet audit testing requirements.</p> <p>Responsible Officer: Bernie Morris, Finance Team Leader</p> <p>Implementation Date: March 2015</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. 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 this. 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 Engagement Lead 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 and Wrekin Council for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Telford and 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.



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