



External Audit Report 2015/16

Telford and Wrekin Council

September 2016

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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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.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.

We are committed to providing you with a high quality service. 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 engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.



Section one: Introduction



This document summarises:

- The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; 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 and Wrekin Council ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 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 2015/16*, presented to you in April 2016, set out the four stages of our financial statements audit process.



We previously reported on our work on the first two stages in our Interim Audit Letter 2015/16 issued in June 2016.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2016.

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 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 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 and other inspectorates and review agencies in relation to these risk areas (including the Ofsted report published 26 August 2016); and
- Carrying out additional risk-based work.

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 2015/16 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

We have also reviewed your progress in implementing prior recommendations. This is 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.



Section two: Headlines



This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	<p>We are pleased to report that we did not identify any material misstatements to the Authority's accounts.</p> <p>We have also agreed a number of minor presentational and disclosure changes to supporting notes to the accounts to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code').</p>
Key financial statements audit risks and other areas of audit focus	<p>We review risks to the financial statements on an ongoing basis. We identified no significant financial statement risks specific to the Authority during 2015/16. Our observations on the presumed risks of revenue recognition and management override of controls are on page 10.</p> <p>We identified the following other areas of audit focus in our 15/16 External audit plan issued in April 2016:</p> <ul style="list-style-type: none"> — Group accounting; and — Better Care Fund accounting. <p>We have worked with officers throughout the year to discuss these areas and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these areas.</p>
Accounts production and audit process	<p>We received complete draft accounts in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The Authority is continuing implementation of the fixed asset module in Agresso, in line with our recommendation in our <i>ISA 260 Report 2014/15</i> relating to the financial statements.</p> <p>The Authority has good processes in place for the production of the accounts and continues to provide good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>As in previous years, we will debrief with the finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particular we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.</p>



This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

VFM conclusion and risk areas	<p>We identified the following VFM risks in our External audit plan 2015/16.</p> <ul style="list-style-type: none"> — Better Care Fund Governance; and — Budget Delivery <p>We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. There are no matters of significance arising as result of our audit work in these VFM risk areas.</p> <p>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 by 30 September 2016.</p>
Completion	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> — Work over related party disclosures, where we have not yet seen all the declarations made by members; — Completion of review of the prior period adjustment disclosure; and — Final review of the revised statement of accounts. <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Assistant Director: Finance and HR. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.</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>
Certificate of closing the audit	<p>We have received questions from an elector about an item in the accounts. The Authority is attempting to resolve the issue before we carry out any additional work. At this stage we do not believe the matter has any impact on our accounts audit opinion, but we will not be able to certify all our work closed for the year until we are satisfied that the issue has been resolved.</p> <p>We also need to finish our work on the Authority's Whole of Government Accounts return, which has a deadline of 21 October 2016.</p>



Section three: Financial Statements

Proposed opinion and audit differences



We have not identified any issues in the course of the audit that are considered to be material.

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

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

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 20 September 2016.

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.

The final materiality level for this year's audit was unchanged from that stated in our *External Audit Plan 2015/16* and was set at £5.0 million. Audit differences below £250,000 are considered trivial. See Appendix Two for more information on materiality.

We are pleased to report that we did not identify any material misstatements to the Authority's accounts. We identified a small number of presentational adjustments. The Authority has addressed 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.

Narrative Statement

We have reviewed the Authority's Narrative Statement and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were the Fraud risk of revenue recognition and Management override of controls:

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work, and we have identified no issues in the course of our testing.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate 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.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus



In our External Audit Plan 2015/16, issued to you in April 2016, we identified two areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each such area of audit focus.

Group Accounting

Risk

The Authority were required to produce group accounts for the first time in 2015/16, following the investment in NuPlace Limited, a wholly owned subsidiary company. This required additional disclosures and revised presentational requirements in the financial statements, which were not required in previous years.

Findings

We have reviewed the methodology used by the authority to consolidate NuPlace Limited and prepare group accounting disclosures in the financial statements. We have identified no issues. We are also completing the audit of the standalone NuPlace financial statements, which gives us additional assurance over the consolidated figures.

Better Care Fund Accounting

Risk

The introduction of the Better Care Fund, which results in pooling of budgets between local authorities and clinical commissioning groups, represents a significant change in relation to the way in which care is delivered throughout the country. The Fund represents an additional accounting risk for the Authority. This is, in part, due to the need to ensure that any under or overspend is appropriately shared between the Authority and its partnering Clinical Commissioning Group and that such sharing is agreed between the parties and founded upon an appropriate basis.

In addition, the Code of Practice on Local Authority Accounting in 2015/16 sets out disclosure requirements in relation to the Better Care Fund that must be complied with in the preparation of the Council's financial statements. The Authority will need to ensure that appropriate records and documents are in place to facilitate and support the preparation of these disclosures.

Findings

We have reviewed the Better Care Fund disclosures made in the financial statements to confirm that these agree to supporting documentation, and that disclosures have been made in line with the CIPFA Code of Practice on Local Authority Accounting in 2015/16. No issues were noted.

Judgements



We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas			
Asset/liability class	15/16	Balance (£m)	KPMG comment
Provisions	2	£20.1 million (PY: £19.1 million)	The Authority hold a number of provisions on their balance sheet, the most significant of which relate to the Single Status Provision for schools (£4.5m) and non-schools (£11.9m), and business rates appeals (£2.7m). The Authority has continued to hold the existing provision for Single Status until an agreement for settlement of the liability is formally concluded. The Authority is continuing to make progress towards the implementation of single status. We consider the provision disclosures to be proportionate.
Minimum Revenue Provision	5	£0.4 million (PY: £1.7 million)	The Authority's minimum revenue provision, as required to finance the repayment of external loans, has decreased significantly from prior year. This is a result of the Authority reviewing its basis for calculating its minimum revenue provision in relation to both PFI assets and historic borrowing. This has resulted in the Authority taking an "MRP Holiday" in order for total provisions already made to fall in-line with the cumulative requirements under the new calculation approach. We determined that this was acceptable.
Property, Plant and Equipment (valuations / asset lives)	3	£485.0 million (PY: £483.9 million)	The Authority's property, plant and equipment balance largely consists of other land and buildings (67%), with infrastructure assets (25%), vehicles, plant, furniture and equipment (3%) and assets under construction (5%). The Authority has followed <i>Code of Practice on Local Authority Accounting in the United Kingdom 2015/16</i> ('the Code') during the year and asset lives for these categories have not changed from the prior year. The Authority also continues to obtain valuations outside of the rolling five year programme where appropriate. We consider this disclosure to be proportionate.
Pensions	3	£212.6 million (PY: £222.2 million)	The pension liability as at 31 March 2016 has decreased from prior year mainly due to the actuarial assumptions applied, in particular an increase in discount rate of 0.3%. The Authority have taken actuarial advice in order to calculate their pension liability. We have reviewed the assumptions applied by the actuary and consider these to be within our expected range. We consider the overall accounting basis to be consistent with other local government bodies.

Accounts production and audit process



The good quality of the accounts and the supporting working papers has been maintained from previous years.

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

The Authority is continuing to implement the recommendation in our ISA 260 Report 2014/15.

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 Authority continues to maintain a good financial reporting process and produce the statement of accounts to a high standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 28 June 2016.
Quality of supporting working papers	Our <i>Accounts Audit Protocol</i> , which we issued on 3 June 2016 and agreed with the Finance Manager and Finance Team Leader, set out our working paper requirements for the audit. The quality of working papers provided was good, and fully met the standards specified in our <i>Accounts Audit Protocol</i> .
Response to audit queries	Officers resolved all audit queries in a reasonable time.
Group audit	We were appointed auditors to the Authority's subsidiary, NuPlace Limited, and are continuing our audit of the financial statements. There are no specific matters to report pertaining to the group audit.

Prior year recommendations

We have specifically followed up the Authority's progress in addressing the recommendations in last year's ISA 260 report.

The Authority is continuing to implement our recommendation on the implementation of the fixed asset module in Agresso, made in our *ISA 260 Report 2014/15*. As part of this, officers have reviewed the fixed asset register to ensure that data is consistent with the requirements of the module. This has resulted in a prior period adjustment being made in the financial statements, in relation to the treatment of impairment in unusable reserves.



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 2016, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four 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 and HR 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 other 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 2015/16 financial statements.



Section four: Value for Money

VFM Conclusion



Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

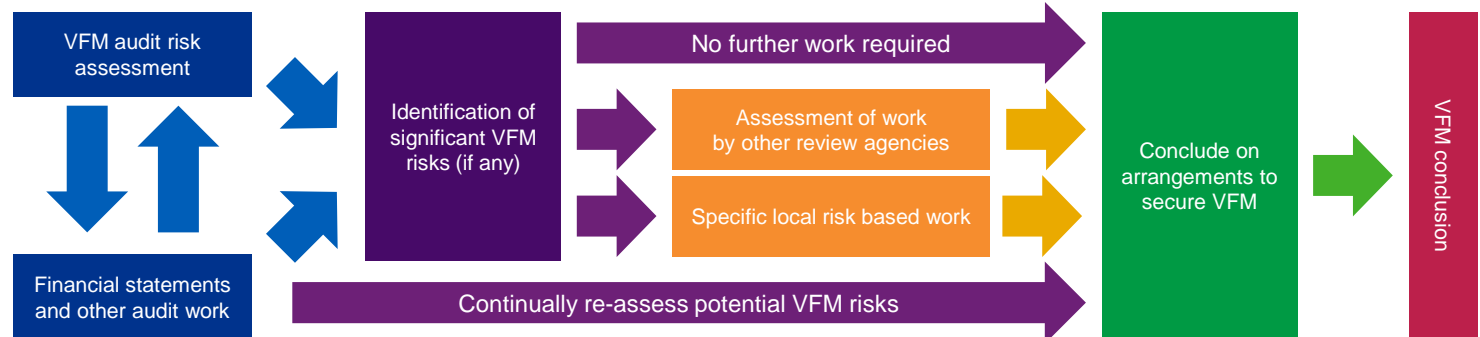
Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.



Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Specific VFM Risks



We have identified a number of 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;
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and

- Completed specific local risk based work.

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 set out on page 11, the Better Care Fund represents a significant development for local authorities and their NHS partners. The need to ensure that appropriate governance structures are in place is essential. Without such, there is a significant risk that funds contributed by the Authority will fail to deliver the desired outcomes and benefits (both for the public and for the Authority). One of the key challenges in establishing effective governance arrangements is the need to balance the demands of the Authority and partnering Clinical Commissioning Group ("CCG").</p> <p>This is relevant to the informed decision making, sustainable resource deployment, and working with partners and third parties sub-criteria of the VFM conclusion.</p>	<p>Specific risk based work required: Yes</p> <p>We have met with officers from both the Authority and the partner CCG in order to ascertain the effectiveness of the governance structures that have been put in place in relation to the Better Care Fund. This confirmed that the Authority is working well with the CCG in order to develop detailed plans and monitor performance against objectives. We also reviewed the minutes of the Health & Wellbeing Board and confirmed that appropriate oversight is being maintained.</p> <p>Whilst the Authority and CCG are carrying out further work to develop more detailed objectives and performance-based reporting processes in a number of areas, we are satisfied that appropriate progress is being made.</p>

Specific VFM Risks (cont.)



We have identified a number of 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.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
 <p>Budget Delivery</p>	<p>The Authority has identified the need to make savings of £10.2m in 2015/16. The period 9 forecast showed that the Authority would deliver a £4m underspend against its budget.</p> <p>The Authority's budget for 2016/17 was approved at the Council meeting on 3 March 2016 and recognised a need for £17.9m in savings. The approved budget includes individual proposals to support the delivery of the overall savings requirement. Further savings of £20.8m will be required over the period 2017/18 and 2018/19 to address future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience.</p> <p>As part of its response to reductions in central government funding the Authority had demonstrated a commitment to identifying new income streams. This has included the establishment of commercial projects in relation to the construction and operation of a solar farm and the delivery of housing for private rental.</p> <p>This is relevant to the sustainable resource deployment sub-criteria of the VFM conclusion.</p>	<p>Specific risk based work required: Yes</p> <p>The Authority has identified related risks in the Strategic Risk Register and manages and monitors this risk accordingly. Progress in delivery of budgets (including delivery of savings plans) is regularly reported to Senior Officers and Cabinet. The Authority has a strong track record of delivering against budget and a Medium Term Financial Plan is in place for 2015-18.</p> <p>We have reviewed the Medium Term Financial Plan, supporting documentation, and the plan's approval process.</p> <p>In considering the Authority's arrangements for securing financial resilience, we reviewed the outturn position against budget, as well as identifying specific one off transactions to identify the normalised position for 2015/16. We also reviewed service outturn reports for individual services and where there have been significant over or under spends in year, we have looked into the reasons and steps taken to manage these budget variances. We have also looked at how management propose to manage savings going forward so as to ensure relevant budget pressures are directly addressed.</p> <p><i>Continued on next page</i></p>

Specific VFM Risks (cont.)



We have identified a number of 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.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
		<p><i>Continued from previous page</i></p> <p>The Authority continues to set itself challenging cost savings during the year in order to support its financial position, identifying savings of £10m to be made in 2015/16. The outturn position identified an small underspend of £121k against the approved budget, which took into account the savings identified at the start of the year.</p> <p>A key element of the Authority's approach to delivering balanced budgets has been the identification of additional income streams through commercial activities. This has included the construction of a solar farm which is now delivering income to the Authority to support the delivery of services; and the private housing subsidiary received its first rents at the end of the financial year.</p>



Appendices

Appendix 1: Follow up of prior year recommendations

Appendix 2: Audit differences and materiality

Appendix 3: Independence and objectivity

Follow up of prior year recommendations

The Authority is continuing to implement the recommendation made in our ISA 260 Report 2014/15.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

No.	Risk	Issue and recommendation	Officer responsible	Status as at September 2016
1	2	<p>Manual Work-Arounds for Fixed Asset Register</p> <p>The Authority's Asset Register is currently held within an Excel file. This creates a large and unwieldy document, that staff have then manually adjusted to meet their requirements. One manual work-around resulted in some assets being included on the list of assets requiring valuation when this was not the case. Another work-around incorrectly showed assets as having an infinite Useful Economic Life, but this was done to ensure no depreciation was charged in the assets' first year as per the depreciation policy. Manual adjustments done on a bespoke basis to suit individual users increase risk of error and (in this example) the commissioning of unnecessary valuation work.</p> <p>Recommendation</p> <p>The Authority should proceed with the planned introduction in 2015/16 of an Agresso Asset Module. This specialist software should reduce need for manual work-arounds and control adjustments that users can make to operation of the register.</p>	Bernie Morris (Finance Team Leader)	<p>The Authority are in the process of implementing the new fixed asset module for 2016/17.</p> <p>In preparation for this, they have reviewed the current asset register and revised it in order to align more fully with the Agresso module.</p>

Appendix two

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

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 your 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.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

We are pleased to report that there are no corrected audit differences.

A number of minor amendments focused on presentational improvements have been made to the draft financial statements of the Authority.

Materiality and reporting of audit differences

For 2015/16 our materiality is £5.0 million for the Authority's accounts.

We have reported all audit differences over £0.25 million for the Authority's accounts.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, issued to you in April 2016.

Materiality for the Authority's accounts was set at £5.0 million which equates to around 1.1% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.25 million for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

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 Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd 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. Public Sector Audit Appointments Ltd 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 Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

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.

General procedures to safeguard independence and objectivity

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

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in 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 2016, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix three

Audit Independence

Fees

Our scale fee for the audit was £117,119 plus VAT (£156,158 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in April 2016. Our scale fee for the certification of the Authority's Housing Benefit Subsidy return is £9,239 plus VAT whilst our fee for the certification of the Teacher's Pensions Agency return is £3,000 plus VAT.

Our fee for the separate audit of the Nuplace Limited financial statements is £9,850 plus VAT. We have also agreed an additional fee of £815 plus VAT with the Authority for the additional work required around the consolidation of Nuplace into the Authority's accounts. In relation to Nuplace Limited we have also been engaged to provide tax computations with a resulting fee of £2,500.

Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Grants Certification (Housing Benefits Subsidy & Teacher's Pensions Agency)	£12,239	The audit of the Housing Benefits Subsidy return forms part of our contractual responsibilities as the Authority's appointed auditor. The Teacher's Pensions Agency return also formed part of these responsibilities until it was removed from the PSAA certification regime in 2013/14. The nature of the work is such that we do not consider it to create any independence threats.
Tax computations for Nuplace Limited	£2,500	The primary threat to independence would be Self review – The nature of this non-audit work is to review the draft tax computations provided by the company and to help with the submission of computations to HMRC. As auditors, we consider whether the tax charge and balances calculated for the accounts have been correctly calculated. The non-audit work is carried out by a independent team with no involvement in the audit, including a separate manager and engagement lead. Consequently, we consider we have appropriately managed this threat.
Total estimated fees	£14,739k	
Total estimated fees as a percentage of the Authority external audit fees	13%	



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