



# External audit report 2016/17

**Telford & Wrekin  
Council**

—

September 2017



# Summary for Audit Committee

## Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Telford and Wrekin Borough Council ('the Authority').

We previously reported on our interim work in our *Audit Progress* letter in May 2017.

This report focuses on our on-site work in July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on page 4 to 12.

**Our work is substantially complete. We anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September.**

The following matters are currently outstanding:

- Receipt of outstanding related party declarations;
- Receipt of the management representation letter;
- Post balance sheet events review up to the date of signing the audit opinion; and
- Final review of the financial statements.

We have identified one audit adjustment with a total value of £0.5 million. See page 23 for details.

We have raised three recommendations, in relation to: the process for obtaining related party declarations; the property valuation process; and in recognition of the challenge that next year's accelerated accounts timetable will bring. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our Annual Audit letter in October 2017, and completion certificate following resolution of an elector question, see page 12.

## Value for money

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**We anticipate issuing an unqualified value for money opinion.**

See further details on page 13 to 17.

## Acknowledgements

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

**We ask the Audit Committee to note this report.**

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## The key contacts in relation to our audit are:

### Ian Pennington

*Director*

KPMG LLP (UK)

0292 046 8087

ian.Pennington@kpmg.co.uk

### Mark Breese

*Manager*

KPMG LLP (UK)

0121 232 3250

Mark.Breese@kpmg.co.uk

### James Keen

*Assistant Manager*

KPMG LLP (UK)

0121 232 3268

James.Keen@kpmg.co.uk

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This report is addressed to Telford and Wrekin Borough Council (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.psa.co.uk](http://www.psa.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](mailto: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](mailto: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**

# Financial Statements



We anticipate issuing an unqualified audit opinion on the Council's 2016/17 financial statements.

We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.



# Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority’s significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Risk	Work performed
<p><b>1. Significant changes in the pension liability due to LGPS Triennial Valuation</b></p>	<p><b>Why is this a risk?</b></p> <p>During the year the Shropshire County Pension Fund (the Pension Fund) Local Government Pension Scheme, of which the Authority is a member, underwent a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. 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 valuation. The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017.</p> <p>There is a risk that the actuary uses inappropriate assumptions in the valuation, or that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts – principally those relating to the calculation of the liability. Most of the data is provided to the actuary by Shropshire Council, who administer the Pension Fund.</p> <p><b>Our work to address this risk</b></p> <p>We have reviewed the data provided by the Authority to the Pension Fund Actuary, and agreed selected items back to the relevant systems and reports from which they derived. We have benchmarked the assumptions used by the Pension Fund actuary, and considered whether they fall within our acceptable ranges. Further detail is provided as part of our consideration of judgements on page 8.</p> <p><b>Findings</b></p> <p>We do not have any issues to bring to your attention in relation to these matters.</p>

## Considerations required by professional standards

**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 2016/17* 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.

**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.

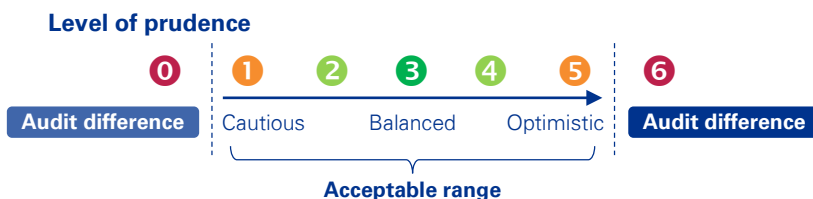
# Other areas of audit focus

We identified one area of audit focus. This is not considered as a significant risk as it is less likely to give rise to a material error. Nonetheless this is an area of importance where we carry out audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
<b>1. CIPFA Code Changes for 2016/17 regarding Presentation of Financial Statements and Accounts preparation</b>	<p><b>Background</b></p> <p>New formats and reporting requirements have been introduced for the Comprehensive Income and Expenditure Statement and the Movement of Reserves Statement. There has also been the introduction of a new Telling the Story review of the presentation of local authority financial statements.</p> <p>These changes, introduced by CIPFA to the 2016/17 Local Government Accounting Code (Code):</p> <ul style="list-style-type: none"><li>— Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and</li><li>— Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note.</li></ul> <p>The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.</p> <p><b>What we have done</b></p> <p>We reviewed the presentation of the financial statements against the requirements of the Code.</p> <p>We do not have any issues to bring to your attention in relation to these matters.</p>

# Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2015/16	2016/17	Commentary
<b>Pension liabilities</b>	£212.6m	£275.5m	Our pensions team have reviewed the proposed assumptions, and results for the Authority within the Shropshire Pension Fund. These include: the discount rate, CPI inflation / pension increases, net discount rate, and life expectancy. From this review we have concluded that the overall effect of the assumptions used is within our benchmark range.
<b>Minimum Revenue Provision</b>	£0.4m	£0.4m	In the prior year we reported that the Authority’s minimum revenue provision, as required to finance the repayment of external loans, had decreased significantly from 2014/15 (£1.7m) as 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 a partial “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. The current year Minimum Revenue Provision charge is consistent with 2015/16. MRP will increase in future periods and the Council will need to make budgetary cash savings elsewhere to cover the MRP increases.
<b>Provisions</b>	£20.1m	£19.9m	The Authority continue to hold a number of provisions on their balance sheet, the most significant of which relate to the Single Status Provision for schools (£3.59m) and non-schools (£12.42m), and business rates appeals (£3.29m). 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.
<b>Property, Plant &amp; Equipment</b>	£485.1m	£511.0m	The Authority’s property, plant and equipment balance largely consists of other land and buildings (£341.6m), with infrastructure assets (£145.8m), vehicles, plant, furniture and equipment (£12.3m) and assets under construction (£11.3m). The Authority has followed the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (‘the Code’) during the year. The Authority also continues to obtain valuations outside of the rolling five year programme where appropriate. We consider this disclosure to be proportionate.

# Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee.

## Audit differences

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

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £4.5 million. Audit differences below £0.225 million are not considered significant.

We did not identify any material misstatements. We identified one issue that has not been adjusted by management as it does not have a material effect on the financial statements.

The tables on the right illustrate the total impact of this audit difference on the Authority's movements on the General Fund and other usable reserves for the year, and balance sheet as at 31 March 2017.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code'). We understand that the Authority has addressed these.

## Annual governance statement

We have reviewed the Authority's 2016/17 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 report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority. The Authority has adopted a positive and helpful approach to the Narrative report, with a useful summary of financial performance.

Movements on the General Fund and other usable reserves 2016/17			
£m	Pre-audit	Post-audit	Ref <sup>1</sup>
Deficit on the provision of services	(8.0)	(8.0)	
Adjustments between accounting basis and funding basis under Regulations	17.1	17.1	
<b>Increase in General Fund and other usable reserves</b>	<b>9.1</b>	<b>9.1</b>	

Balance sheet as at 31 March 2017			
£m	Pre-audit	Post-audit	Ref <sup>1</sup>
Property, plant and equipment	511.0	511.5	1
Other long term assets	95.6	95.6	
Current assets	65.5	65.5	
Current liabilities	(197.7)	(197.7)	
Long term liabilities	(432.5)	(432.5)	
<b>Net worth</b>	<b>41.9</b>	<b>42.4</b>	
General Fund	67.9	67.9	
Other usable reserves	3.3	3.3	
Unusable reserves	(29.3)	(28.8)	1
<b>Total reserves</b>	<b>41.9</b>	<b>42.4</b>	

<sup>1</sup> See referenced adjustment in Appendix 3.

## Section one: financial statements

# Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on 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. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.



### Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge. We consider the Authority's accounting practices appropriate. We have raised one recommendation in Appendix 1 that relates to the earlier deadlines in 2017/18 of 31 May for the first draft accounts, and 31 July for signing of the accounts.

### Completeness of draft accounts

We received a complete set of draft accounts on 14 June 2017, in advance of the statutory deadline of 30 June 2017.

### Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in April 2017 which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations.

### Response to audit queries

We are pleased to report that, in general, turnaround time of our audit queries was kept to a minimum. Where this was not the case, and where we experienced any delays, we will work with management to agree how this will be addressed to ensure that the Council is in a strong position to take on the 2017/18 earlier closedown.

### Group audit

We have reviewed the methodology used by the authority to consolidate Nuplace 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.

## Section one: financial statements

### Related parties

Each year the Authority writes to members requesting they return a declaration of any related parties. At the time of concluding our on-site audit visit, the Authority was still awaiting 29 out of 66 related party declarations. After a further follow up exercise there was an improvement down to 4 outstanding at the end of August. These declarations need to be completed and returned on a timely basis so that the Authority is aware where such relationships may exist. Identification of related parties is important, not just to enable disclosure in the accounts, but to ensure that the Authority can demonstrate that it is making decisions free from influence and demonstrate value for money. We have raised one recommendation in relation to this process (see Appendix 1).

As auditors we are required to obtain assurance that the process followed by the Authority for identifying related parties is appropriate, and that the disclosures made are suitably informed.

### Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendation in last year's ISA 260 report.

The Authority has implemented the recommendation from our ISA 260 Report 2015/16. Appendix 2 provides further details.

### Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on the work performed, we are satisfied that the controls are performing effectively. We are able to place reliance on the Authority's control framework.

We have raised three recommendations involving related party declarations, the valuation process, and a look forward to next year's earlier closedown deadline. Further detail and associated recommendations can be found in Appendix 1.

# Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 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 Borough Council for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Telford and Wrekin Borough 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 5 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 Chief Finance Officer 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.

## Elector question from 2015/16

We previously received an elector question that was put on hold pending the decision from the Information Commissioner's Office (ICO) relating to an appeal made by the resident against redactions made on documents released under the Freedom of Information Act. In April the ICO reached a decision, and whilst the Authority is appealing this decision we considered it appropriate that we should commence our work in responding to this question. We have now received information and documentation from the Council, and we expect to provide an update in our Annual Audit Letter. Until that point we will be unable to issue our certificate for the closure of the 2015/16 and hence 2016/17 audits.



**Section two**

# Value for money

Our 2016/17 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 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.



## Section two: value for money

# VFM conclusion

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.'

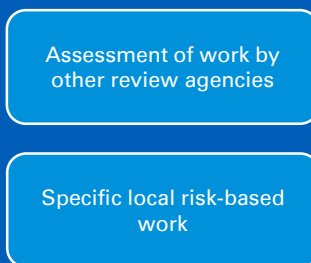
Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

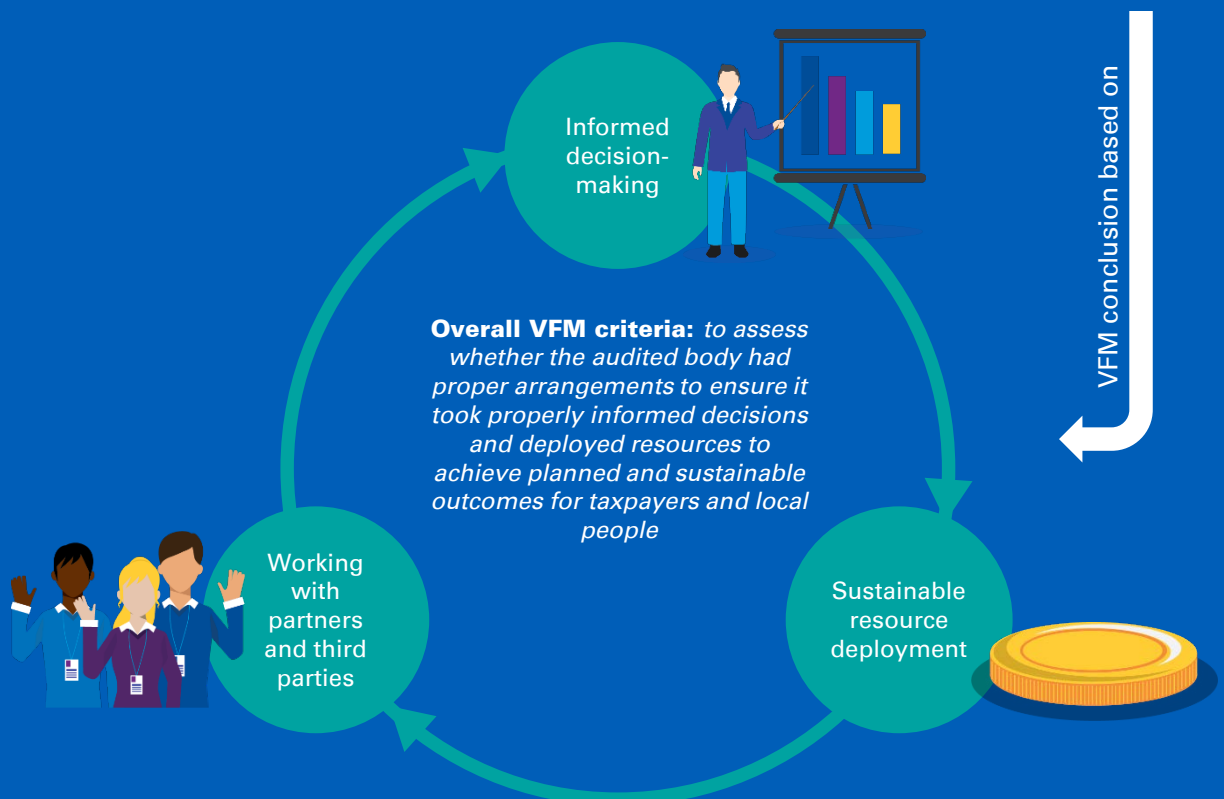
### 1 Identification of significant VFM risks (if any)



### 2 Continually re-assess potential VFM risks



### 3 VFM conclusion



## Section two: value for money

The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
<b>1. Financial resilience in the local and national economy</b>	✓	✓	✓
<b>Overall summary</b>	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, 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.

Further details on the work done and our assessment is provided on the following page.

# Significant VFM risks

We have identified one significant VFM risk, as communicated to you in our *2016/17 External Audit Plan*. We are satisfied that external and internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Significant VFM risks	Work performed
<b>1. Financial resilience in the local and national economy</b>	<p data-bbox="444 623 651 652"><b>Why is this a risk?</b></p> <p data-bbox="444 669 1350 837">There has been a significant shift in the national outlook over the last 12 months, primarily driven by the outcome of the referendum on 23 June 2016 on the UK's membership of the European Union. Consequently GDP growth forecasts have been revised downwards, which potentially reduces the level of any growth in business rates income. Inflationary pressures, service pressures, and a reduction in the local government finance settlement will impact on the Authority's finances.</p> <p data-bbox="444 855 1350 1023">The Authority's budget for 2017/18 was presented to the Council in March 2017, to include individual proposals for the delivery of the overall savings requirement. In addition, further savings will be required over the period 2018/19 and 2019/20 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 data-bbox="444 1042 1350 1156">As part of its response to reductions in central government funding, the Authority has demonstrated a commitment to identifying new income streams. This has included the establishment of commercial projects such as the construction and operation of a solar farm and the delivery of housing for private rental.</p> <p data-bbox="444 1174 698 1203"><b>Summary of our work</b></p> <p data-bbox="444 1220 1350 1359">Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. The Council's revenue outturn position for 2016/17 was within budget, with a final net underspend of £0.17m against a net budget of £122m (£433m gross), achieved after delivering £16m of budget savings in 2016/17.</p> <p data-bbox="444 1377 1350 1607">We have assessed the controls the Council has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Council can continue to provide services effectively, whilst recognising that the current national review of the Business Rates Retention scheme presents significant uncertainty. Savings of £13.8m have been identified for 2017/18. In July, the Council reported the net projected outturn position for 2017/18 was estimated to be within budget.</p> <p data-bbox="444 1626 1350 1738">We have reviewed the way in which the Authority monitors the delivery of income from commercial projects, in particular those that have been recently implemented and the extent to which these have met expectations and contributed towards the budget.</p> <p data-bbox="444 1757 841 1783">Specific risk based work required: No</p>

A close-up, shallow depth-of-field photograph of a stack of books on a wooden surface. The books are stacked vertically, with the top one showing a red cover. A silver pen lies horizontally in the foreground, its tip pointing towards the left. The background is softly blurred, showing more books and a warm, golden light. The word 'Appendices' is overlaid in a thin, dark red font, centered horizontally and partially enclosed by two vertical lines of the same color.


# Appendices


# Key issues and recommendations


In this appendix we have set out our recommendations which we have agreed with Management. We have also included Management’s responses to these recommendations.

The Authority should monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

- 

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.
- 

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.
- 

Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary			
Priority	Number raised in our interim report	Number raised from our year-end audit	Total raised for 2016/17
High	0	1	1
Medium	0	2	2
Low	0	0	0
<b>Total</b>	<b>0</b>	<b>3</b>	<b>3</b>



**1. Related Party Declarations**

At the time of concluding our on-site audit visit, the Authority was still awaiting 29 out of 66 related party declarations. We understand from management that, following an exercise by the Authority to request outstanding declarations, 4 declarations remain outstanding at the time of issuing our report. Related Party Declarations need to be completed and returned on a timely basis so that the Authority is aware where such relationships may exist. Identification of related parties is important, not just to enable disclosure in the accounts, but to ensure that the Authority can demonstrate that it is making decisions free from influence and demonstrate value for money.

**Recommendation**

The Authority should ensure that related party declarations are completed and returned on a timely basis, and that these declarations are used to inform the register of interests and accounts disclosures.

**Management Response**

Councillors will be reminded that it is their duty to declare any interests and that we are required by Regulation to include this information in the Statement of Accounts. Additional reminders will also be issued earlier in the process.

**Owner**

Ken Clarke, AD: Finance & HR; Bernie Morris, Finance Team

**Deadline**

March 2018



**2. 2017/18 Early Closedown**

Over recent years the Finance team has demonstrated a strong track record of achieving closure of the accounts.

2017/18 represents the first year of the earlier deadline of 31 May for the first Draft accounts to be made available, and 31 July for approval and publishing of the accounts, brought forward from 30 September.

**Recommendation**

The Authority should plan to bring forward its Audit Committee meeting to receive the accounts, further evaluate where the year end timetable could be streamlined and ensure audit requirements are met to facilitate an earlier audit in 2017/18. Ideally the Authority should move to more rigorous closedowns of all account areas (such as capital) on a monthly basis.

**Management Response**

The provisional meeting timetable for 2018/19 includes an Audit Committee meeting before the end of May to receive the draft accounts. Considerable work has already been undertaken to accelerate the SOA timetable and the 2016/17 draft accounts were complete on the 7 June. Although challenging, some further adjustments will be made to meet 31 May deadline for the 2017/18 draft accounts. Discussions have already taken place about taking a different approach to the audit next year with more work being undertaken at the interim audit stage, or earlier. Finance staff will assist as far as possible in ensuring a smooth audit with the aim of publication of the final accounts by the 31 July deadline.

**Owner**

Pauline Harris – Finance Manager; Bernie Morris – Finance Team Leader

**Deadline**

Now to 31 May 2018

Medium  
priority

### 3. Completeness of valuation information

We identified one instance where incomplete information was provided to the valuer, resulting in an incorrect valuation and audit difference (see Appendix 2).

#### Recommendation

The Authority should ensure that there is a robust process in place to ensure that all relevant information is provided to the valuer in advance of the valuation being made.

#### Management Response

The error occurred due to a missing completion certificate which resulted in the capital spend relating to the asset being incorrect on the valuers spreadsheet. Going forward the new Fixed Assets Module will produce a list of assets to be valued, this will include the capital expenditure to date and should ensure that an error of this nature does not occur again. Valuers will also be able to access the module to check capital spend.

#### Owner

Bernie Morris, Finance Team Leader;  
James Dunn, SDM Estates & Investments

#### Deadline

30 September 2017

# Follow-up of prior year recommendations

In the previous year, we raised one recommendation which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has implemented the recommendation.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

In the prior year we raised one recommendation, that has since been implemented..

Medium  
priority

## 1. Manual Work-Arounds for Fixed Asset Register

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.

### Recommendation

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.

### Management original response

The Authority are in the process of implementing the new fixed asset module for 2016/17.

In preparation for this, they have reviewed the current asset register and revised it in order to align more fully with the Agresso module.

*Owner*

Bernie Morris (Finance Team Leader)

### KPMG's September 2017 assessment

The new fixed asset register has been implemented in year. We consider this recommendation to be implemented.

## Appendix 3

# Audit differences

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.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements.

### Adjusted audit differences

There are no adjusted audit differences.

### Unadjusted audit differences

The following table sets out the uncorrected audit difference identified by our audit of Telford and Wrekin Borough Council's financial statements for the year ended 31 March 2017.

Table 1: Unadjusted audit differences (£'000)						
No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1			Dr Property Plant & Equipment <b>509</b>		Cr Revaluation Reserve <b>68</b> Cr Surplus on revaluation of assets <b>441</b>	An error was made in the valuation of the Energy Centre asset as a result of a missing completion certificate (which would have given the total capital expenditure) that the valuers should have received from the project manager. The asset is valued at depreciated replacement cost, so as a result, the valuation should have been £615k, rather than £106k. This would have resulted in a small revaluation gain, rather than the loss previously recognised.
			<b>Dr 509</b>		<b>Cr 509</b>	<b>Total impact of uncorrected audit differences</b>

# Materiality and reporting of audit differences

## 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 2016/17, presented to you in January 2017.

Materiality for the Authority's accounts was set at £4.5 million which equates to around 1% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

## 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 £0.225 million for the Authority.

Where management have corrected material misstatements identified during the course of the audit,

# Declaration of independence and objectivity

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.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

### Auditor declaration

In relation to the audit of the financial statements of Telford and Wrekin Borough Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Telford and Wrekin Borough 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.

**Non-audit work and independence**

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Tax Computations for Nuplace Limited 2016	£2,500	<p>The nature of this non-audit work was 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. Following the new EU independence rules, which took effect from 31 March 2017, we no longer perform this service.</p> <p><b>Self-interest:</b> This engagement is entirely separate from the audit through a separate contract, engagement team and engagement lead. In addition, the audit fee scale rates were set independently to KPMG by the PSAA. Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.</p> <p><b>Self-review:</b> The non-audit work is carried out by a independent team with no involvement in the audit, including a separate manager and engagement lead. We did not prepare the tax computations for inclusion in the accounts. Consequently, we consider we have appropriately managed this threat.</p> <p><b>Management threat:</b> This work will be support only – all decisions are made by directors of the company.</p> <p><b>Familiarity:</b> This threat is limited given the scale, nature and timing of the work. The existence of the separate team for this work is the key safeguard.</p> <p><b>Advocacy:</b> We will not act as advocates for the Authority in any aspect of this work. We will draw on our experience in such roles to provide the company with a range of approaches but the scope of this work falls well short of any advocacy role.</p> <p><b>Intimidation:</b> not applicable</p>
Grants Certification	£12,239	<p>We carry out certification work on the Housing Benefits Subsidy and Teachers Pension returns.</p> <p><b>Self-interest:</b> These engagements are performed under externally specified work programmes. The work has no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.</p> <p><b>Self-review:</b> The financial information included in the grant claim submissions is not extracted from the financial statements, but is compiled separately. The work is undertaken at various points throughout the year and is not linked to the financial statements reporting process. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors.</p> <p><b>Management threat:</b> All decisions are made by the Council.</p> <p><b>Familiarity:</b> This threat is limited given the scale, nature and timing of the work.</p> <p><b>Advocacy:</b> We will not act as advocates for the Council in any aspect of this work.</p> <p><b>Intimidation:</b> Not applicable</p>
<b>Total estimated fees</b>	<b>£13,155</b>	
<b>Total estimated fees as a percentage of the external audit fees</b>	<b>11%</b>	

## Appendix 6

# Audit fees

### Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £117,119 plus VAT (*£117,119 in 2015/16*). Our work for the separate audit of the Nuplace Limited financial statements, which falls outside of the PSAA arrangement, is £9,239 plus VAT. We have also agreed an additional fee of £815 plus VAT with the Authority and PSAA for the additional work required around the consolidation of Nuplace into the Authority's accounts.

Our work on the certification of Housing Benefits (BEN01) is planned for September 2017. In our fee letter of 28 April 2016 we had previously indicated a planned scale fee of £7,155 plus VAT. The actual fee, now confirmed by PSAA, is £9,239 plus VAT which is consistent with 2015/16 and reflecting that there has been no change from the prior year in the scope of this work.

Our expected fee for the certification of the Teachers Pension Return, which falls outside the PSAA remit, is £3,500 plus VAT (*£3,000 in 2015/16 following a change in scope*).

PSAA fee table		
Component of audit	2016/17 (planned fee) £	2015/16 (actual fee) £
<b>Accounts opinion and value for money work</b>		
PSAA scale fee	£117,119	£117,119
Additional work over Group Accounts	£815	£815
Response to elector question *	TBC	TBC
<b>Subtotal</b>	<b>£117,934</b>	<b>£117,934</b>
<b>Housing benefits (BEN01) certification work</b>		
PSAA scale fee	£9,239	£9,239
<b>Total fee for the Authority set by the PSAA</b>	<b>£127,173</b>	<b>£127,173</b>

All fees are quoted exclusive of VAT.

\* As set out in Section One, Completion, we have commenced our work looking into an elector question. We expect to provide an update in our Annual Audit Letter.



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