



# External Audit ISA260 Report 2017/18

**Telford and Wrekin  
Council**

—

24 July 2018

# Summary for Audit Committee

**This document summarises the key findings in relation to our 2017-18 external audit at Telford and Wrekin Council ('the Authority').**

**This report covers our on-site work which was completed in March, and June to July 2018, on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.**

## Financial statements

**Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.**

Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see page 10):

- **Valuation of PPE (Property, Plant & Equipment)** – No issues were noted with respect to the Authority's approach to, or accounting for, the valuation of PPE;
- **Pensions Liabilities** – The Authority's pension liability is appropriately accounted for, and has been determined using reasonable actuarial assumptions; and
- **Faster Close** – As noted above, the Authority produced draft accounts by the new earlier deadline of 31 May, and we anticipate issuing an unqualified audit opinion by the earlier deadline of 31 July.

We are pleased to report that we have not identified any audit misstatements.

We identified a small number of presentational adjustments. Details of these are set out at Appendix 3.

We have raised two recommendations (see Appendix 1).

## Organisational and IT control environment

We have identified no significant issues regarding the Authority's organisational control environment. One low risk recommendation has been identified in respect of IT controls, regarding IT password controls. See page 4.

## Review of internal audit

Our review and re-performance of the work of internal audit, undertaken to inform our risk assessment and audit work, identified no issues. See page 5.

## Controls over key financial systems

We consider controls over the Authority's key financial systems to be sound overall. Any issues identified have been raised in the appropriate internal audit reports and therefore are not reproduced in this report. See page 6.

## Accounts production

No issues were noted in respect of the production of the draft accounts for the new earlier deadline of 31 May. In addition, we consider that all of our prior year audit recommendations have been implemented. See pages 8 and 9.

# Summary for Audit Committee (cont.)

## Value for money arrangements

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

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risk:

- **Delivery of Budgets** – The Authority has underspent its 2017/18 budget by £0.150 million, and has set out savings plans for future years to enable it to set a balanced budget for 2018/19. Detailed savings are still required to be found in future years. We consider the Authority's plans appropriate.

See further details on pages 18 to 23.

## Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or that the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help with the audit process.

**Section one**

# Control Environment



# Organisational and IT control environment

**We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.**

**We have identified one area for further improvement below.**

## **Work completed**

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses, this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Our IT specialist auditors have completed systems controls work over the Authority's finance system (Agresso), benefits system (Northgate) and payroll system (PSE).

## **Key findings**

We consider that your organisational and IT controls are effective overall, but identified one area for further improvement:

- Password policy enforcement: the Authority's password policy was not correctly enforced for all criteria on the systems tested.

This recommendation is set out in further detail in Appendix 1.

# Review of internal audit

**We have reviewed the work of internal audit as part of our risk assessment and planning work. We have identified no issues with the work of internal audit.**

## **Background**

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

## **Work completed**

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

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

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards (ISA610) require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

The Public Sector Internal Audit Standards define the way in which the internal audit service should undertake its functions. Internal audit completed a self-assessment against the PSIAS in 2016.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them in order to confirm that their conclusions were sound. We only review internal audit work that has relevance to our audit responsibilities, to effectively scope out other internal audit work from our findings. Our review of internal audit work does not represent an external review against PSIAS, which internal audit are required to commission at least every five years.

## **Key findings**

Based on the self-assessment performed by internal audit, our assessment of their files, attendance at Audit Committee and regular meetings during the course of the year, we have not identified any significant issues which would prevent us from relying on internal audit's work for 2017/18 for our risk assessment and planning.

# Controls over key financial systems

**The controls over all of the key financial systems are sound overall.**

## Work completed

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

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

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

## Key findings

Based on our work, and the work of your internal auditors, we have determined that the controls over the key financial systems are sound overall.

Where weaknesses were noted, internal audit included recommendations in their reports as appropriate. Our interim audit letter, presented to the Audit Committee in May 2018, noted that there were a small number of matters noted through our interim work. As this work did not identify any control deficiencies that were not reported by Internal Audit to management and, where relevant, to Audit Committee, we have not reproduced these recommendations in this report. Any individual control deficiencies identified were not significant in nature, and did not affect the timing or nature of our planned audit procedures.

We have reported control deficiencies that were identified through other procedures, including our IT controls audit work and final audit visit in respect of the financial statements, elsewhere within this report.

Aspect of controls	Assessment
Property, Plant and Equipment	3
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Non pay expenditure	2
Payroll	2
Housing benefits expenditure	2
Business rates income	3
Council tax income	3
Journal entries	3

Key	
1	Significant gaps in the control environment
2	Deficiencies in respect of individual controls
3	No deficiencies identified

An overhead photograph of four business professionals sitting around a white conference table in a bright, modern office. The scene is captured from a high angle, showing the backs and sides of the individuals. A woman with blonde hair is at the top, looking down at a laptop. A man in a light blue shirt is on the left, also looking at a laptop. A woman with dark hair is at the bottom left, resting her head on her hand. A man in a light blue shirt is at the bottom right, with his hands clasped behind his head. The office has large windows on the left, casting shadows on the floor. A blue horizontal band runs across the middle of the image, containing the text.

**Section two**

# Financial Statements

# Accounts production and audit process

**Auditing 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.**

**The Authority's overall process for the preparation of the financial statements was suitable to allow the Authority to meet the earlier deadline for production of the accounts.**

**The Authority has implemented all of the recommendations in our *ISA 260 Report 2016/17*.**

## Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. This included revision of the closedown timetable to further manage deadlines for completion of the accounts. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerged.

We consider that the overall process for the preparation of your financial statements is adequate.

We also consider that the Authority's accounting practices are appropriate.

## Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Further commentary on the Authority's arrangements in place to secure the effective delivery of budgets is included at Section Three to this report.

## Implementation of recommendations from prior year

We raised a total of three recommendations in our ISA 260 Report 2016/17. The Authority has implemented all of the recommendations relating to the financial statements in line with the timescales of the action plan. The table below sets out the Authority's progress against higher priority recommendations. Further details are included in Appendix 2.

One high priority recommendation was reported in our ISA 260 Report 2016/17, as follows:

Issue	Progress
<b>Related party disclosures</b> The authority experienced delays in obtaining related party declarations from members in 2016/17.	At the outset of our 2017/18 audit, the Authority had received all but two of the required declarations. This is a significant improvement from the same time in 2017, when 29 were outstanding. All declarations have been received by the Authority at the time of this report.

## Completeness of draft accounts

We received a complete set of draft accounts on 30 May, which is before the statutory deadline.

# Accounts production and audit process (cont.)

## **Quality of supporting working papers**

We issued our Accounts Audit Protocol to your Finance team on 30 January 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations.

We worked with management to ensure that working paper requirements were understood and aligned to our expectations. We are pleased to report that this has resulted in good quality working papers with clear audit trails.

## **Response to audit queries**

The time taken by officers, including those outside of the core finance team, to deal with our audit queries was satisfactory.

## **Group audit**

To gain assurance over the Authority's group accounts, we review the consolidation of the Authority's subsidiary, Nuplace Limited, into the financial statements, KPMG LLP are also the external auditors of Nuplace Limited.

There are no specific matters to report pertaining to the group audit.

We are also pleased to report that there were no issues to note in relation to the consolidation process.

# Specific audit areas

**We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA ('Delivering Good Governance in Local Government') published in April 2016.**

**For the year ending 31 March 2018, the Authority has reported a deficit on provision of services of £57m. The impact on usable General Fund reserves has been an increase of £0.15m, due to a positive actuarial remeasurement of the defined benefit pension liability. The Authority has used £2m of capital receipts against its revenue expenditure. The underlying deficit before the use of capital receipts is £59.0m.**

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

## 01

### 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.

## 02

### Fraudulent 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 2017-18* 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.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

# Specific audit areas

## Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

<b>Risk:</b>	<b>Valuation of PPE</b> <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.</p>
<b>Our assessment and work undertaken:</b>	<p>We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.</p> <p>In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time.</p> <p>In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.</p> <p>We also assessed the valuer’s qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).</p> <p>As a result of this work we determined that the assumptions used by the valuer were appropriate. No issues were noted with the carrying value of properties, or the accounting entries used to record these valuations within the financial statements.</p> <p>We have set out our view of the assumptions used in relation to accounting for Property, Plant &amp; Equipment at page 15.</p>

# Specific audit areas (cont.)

## Significant Audit Risks – Authority (cont.)

<b>Risk:</b>	<b>Pension Liabilities</b> <p>The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Shropshire County Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and the actuarial methodology that produces the Authority's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p>
<b>Our assessment and work undertaken:</b>	<p>As part of our work we reviewed the controls that the Authority has in place over the information sent directly to the Pension Fund. The Pension Fund is responsible for submitting the information to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. We also evaluated the competency, objectivity and independence of Mercer, the Scheme Actuary. We also assessed the controls with respect to the management review of assumptions used in the valuation report and accounts.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Mercer. In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.</p> <p>In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. We have also requested assurance from the Pension Fund auditors over the controls over fund assets.</p> <p>As a result of this work we determined that the assumptions used by the actuary were appropriate. The pension liability has been appropriately accounted for in the financial statements.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.</p>

# Specific audit areas (cont.)

## Significant Audit Risks – Authority (cont.)

<p><b>Risk:</b></p>	<p><b>Faster Close</b></p> <p>In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018, however, revised deadlines apply that require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>These changes represent a significant change to the timetable that the Authority has previously followed. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.</p> <p>In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:</p> <ul style="list-style-type: none"><li>— Ensuring that any third parties involved in the production of the accounts (e.g. valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work on time;</li><li>— Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;</li><li>— Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and</li><li>— Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.</li></ul> <p>In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.</p> <p>There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority’s Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.</p>
<p><b>Our assessment and work undertaken:</b></p>	<p>We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work to the interim visit in order to streamline the year end audit work.</p> <p>We received draft financial statements in advance of the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years. The accounts included the necessary information from third parties, such as valuers and actuaries. As reported in further detail on pages 14 and 15, we have identified no issues with the Authority’s accounting estimates and judgements.</p> <p>We identified no issues with the production or quality of the financial statements and supporting working papers in line with the revised deadlines.</p>



# Judgements (cont.)

Subjective area	2016-17	2017-18	Commentary																											
Valuation of pension assets and liabilities	3	3	<p>The Authority continues to use Mercer to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation.</p> <p>The actual assumptions adopted by the actuary fell within our expected ranges as set out below:</p>																											
			<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>KPMG Value</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.60%</td> <td>2.50%</td> <td>4</td> </tr> <tr> <td>Pension increase rate</td> <td>2.20%</td> <td>2.16%</td> <td>3</td> </tr> <tr> <td>Salary increases</td> <td>CPI + 1.5%</td> <td>CPI + 0% to 2.0%</td> <td>3</td> </tr> <tr> <td>Life expectancy</td> <td></td> <td></td> <td></td> </tr> <tr> <td>    Males aged 45/65</td> <td>25.3 / 23.1</td> <td>23.5 / 22.1</td> <td rowspan="2">2</td> </tr> <tr> <td>    Females aged 45/65</td> <td>28.6 / 26.3</td> <td>25.4 / 23.9</td> </tr> </tbody> </table>	Assumption	Actuary Value	KPMG Value	Assessment	Discount rate	2.60%	2.50%	4	Pension increase rate	2.20%	2.16%	3	Salary increases	CPI + 1.5%	CPI + 0% to 2.0%	3	Life expectancy				Males aged 45/65	25.3 / 23.1	23.5 / 22.1	2	Females aged 45/65	28.6 / 26.3	25.4 / 23.9
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Property Plant & Equipment	3	3	<p>The Authority’s property, plant and equipment balance largely consists of other land and buildings (£286.7m), with infrastructure assets (£161.8m), vehicles, plant, furniture and equipment (£12.0m) and assets under construction (£11.0m) comprising the remainder of the balance.</p>																											
			<p>The Authority has followed the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (‘the Code’) during the year. The Authority also continues to obtain valuations outside of the rolling five year programme where appropriate, including annual valuations of the Property Investment Programme. Management have considered, in consultation with the valuations team, whether the valuations obtained as at 1 April 2017 remain appropriate as at the reporting date of 31 March 2018, and have confirmed this to be the case.</p> <p>We consider this disclosure to be proportionate.</p>																											

# Proposed opinion and audit differences

**Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Audit Committee on 24 July 2018.**

## **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.

Materiality (see Appendix 4) 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 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 2017-18 ('the Code'). We have set out details of significant presentational adjustments in Appendix 3, which the Authority have addressed.

## **Annual governance statement**

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that:

- It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA; and
- It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

We have reported comments to management in respect of its format and content which the Authority has agreed to amend where significant.

## **Narrative report**

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

# Completion

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 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 2018, we confirm that there were no relationships between KPMG LLP and the Authority, 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 6 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 Financial 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 or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

**Section three**

# Value for Money Arrangements



# Specific value for money risk areas

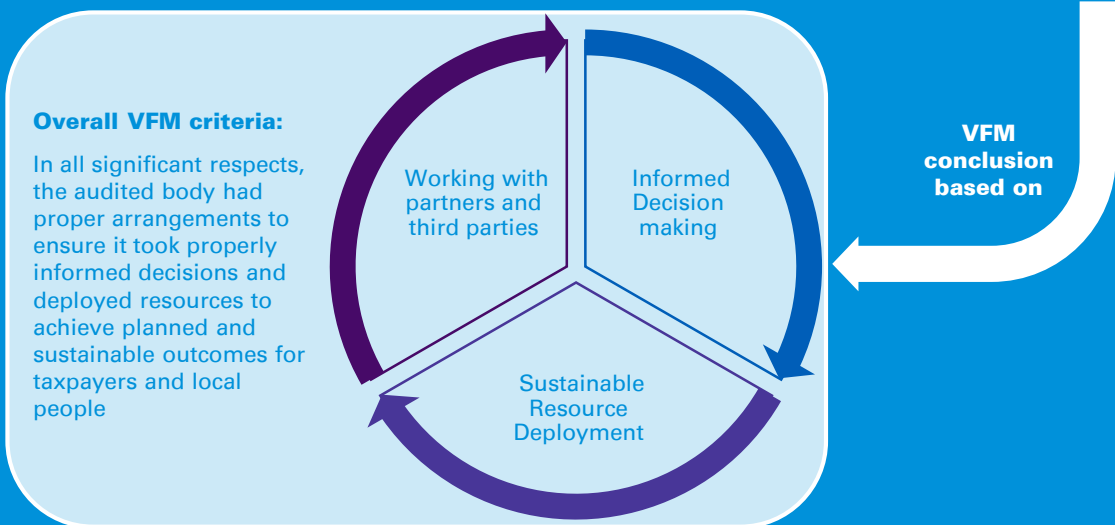
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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.

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.'

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



### Section three: Value for Money arrangements

# Specific value for money risk areas (cont.)

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.

#### Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Delivery of budgets	✓	✓	✓

In consideration of the above, we have concluded that in 2017-18, 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 are provided on the following pages.



# Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18*, we have identified one risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

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.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

<p><b>Risk:</b></p>	<p><b>Delivery of budgets</b></p> <p>The Authority's proposed budget for 2018/19 will be presented to the Council in March 2018, to include individual proposals for the delivery of the overall savings requirement. In addition, we anticipate the budget papers will identify further savings required over the period 2019/20 and 2020/21 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 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><b>Our assessment and work undertaken:</b></p>	<p>The Authority reported a slight underspend on its net expenditure budget for 2017/18 of £0.15 million. This enabled the General Fund balance to increase by this amount to £4.8 million as of 31 March 2018. In addition, earmarked general fund reserves increased by £14.6 million to £70.1 million. The 2017/18 outturn was reported to Cabinet on 31 May 2018.</p> <p>Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. In particular, the Authority has faced ongoing pressures around the delivery of Adult Social Care and Children's Safeguarding and Early Help budgets due to continued pressures on both volume and unit costs.</p> <p>The provisional Local Government Finance Settlement announced by the Secretary of State for Communities and Local Government on 19 December 2017, and this will see the Authority's Revenue Support Grant cut by over 23% (£4.3m) next year with a further cut of more than 30% in 2019/20.</p> <p>The Authority's budget for 2018/19 is balanced, and includes savings of £7.6 million in year, all of which have been identified. These savings are in addition to the £13.8 million made by the Authority for 2017/18, which were on top of previously identified recurring savings made in prior years. The budget details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings which have yet to be identified, totalling between £20 million and £25 million by 2020/21.</p> <p>(Continued overleaf)</p>

# Specific value for money risk areas (cont.)

## Significant VFM Risks (cont.)

### Our assessment and work undertaken (cont.):

#### Delivery of budgets (cont.)

We have considered how the Authority has ensured informed decision making through reporting of financial information to Cabinet and Council. Through review of papers and discussions with officers we have also obtained an understanding of the key assumptions made within the 2018/19 budget, as well as considering the appropriateness of those assumptions.

Contingencies totalling £6.9 million are also built into the budget, comprising a base revenue contingency of £3.8 million; an inflation contingency of £2.1 million; and a contingency of £1 million for Children's Safeguarding and Early Help and Adult Social Care pending implementation of a cost improvement programme in 2018/19.

We also note that the Authority has budgeted for a significant programme of asset sales over the period to 2021, including £10.9 million in 2018/19. The Authority has identified appropriate mitigations for non-achievement of these disposals, which is prudent particularly in the context of historic difficulties in achieving asset sales.

The budget includes a pay increase assumption of 2.7% for 2018/19 and 2019/20, which is in line with the national pay award to reflect changes in spinal points and the impact of the National Living Wage.

The Authority has achieved financial benefit in recent years through its approach to treasury management, with around £2.7 million contribution in 2017/18 as a result of reduced interest costs achieved by use of short term borrowing. This level of contribution cannot be automatically assumed in future years as the Authority intends to lock into longer term borrowing which would have higher, but fixed rates, of interest. The Authority will also start to feel the impact of higher Minimum Revenue Provisions as set out on page 14.

The Authority, as outlined in Service and Financial Planning 2018/19 to 2019/20 report presented to Cabinet on 15 February 2018, will seek to raise additional revenue through a council tax increase of 3.2% in both 2018/19 and 2019/20, but this increase by itself will not offset the funding reductions imposed elsewhere. We note that any increase (or not) in council tax has a compounding effect on the Authority revenue in future years as further annual increases are applied.

Our work has also considered the ongoing impact of new income streams developed by the Authority. The draft Nuplace financial statements show a profit before tax of £0.343 million for 2017/18, and the Authority also benefits from recharging some fixed costs (such as relevant staff salaries) to the company. The Authority reported that income of £1.238m was received from Nuplace in 2017/18, and has budgeted to deliver a further £17.1m capital expenditure on Nuplace housing schemes during 2018/19.

Local authorities do not know what their overall funding settlement will be from 2020/21 onwards. This presents yet another unknown in already uncertain times in the wider economy as the UK prepares to leave the European Union. The Authority's current strategy has been to try and maintain strong reserves, but clearly this has presented a challenge given the pressure caused by successive funding reductions that have occurred since 2010/11. The Authority's own reporting has quantified that by 2020/21 these ongoing savings will have amounted to £140 million. In the absence of future funding security, reliance on drawing down reserves and other methods such as borrowing would not be a sustainable option, as recognised in the Authority's Service and Financial Planning reports.

(Continued overleaf)

# Specific value for money risk areas (cont.)

## Significant VFM Risks (cont.)

### Our assessment and work undertaken (cont.):

#### Delivery of budgets (cont.)

Decisions about future local authority funding are expected from Government. This includes how much local business rates an authority can keep and how local business rates will be distributed in the future (currently being looked at as part of the Fair Funding Review), as well as proposals for long-term and sustainable solutions for adult social care. The timing of when such decisions will be made is unclear but is unlikely to take place until 2019 as part of the next Spending Review which will set the total amount of government funding available for local authorities.

Without such funding, increasingly difficult decisions around savings plans will continue, including looking at the ways in which services are delivered. Further consideration may need to be given to potential income generating activities and associated risks.

Our 2017-18 VFM conclusion, as stated on page 19, has considered 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, as well as how the Authority worked with partners and third parties.

#### Conclusion

We concluded that proper arrangements were in place during the year. However we note that in the absence of any clarity over future funding arrangements and sources of revenue, it will be an increasing challenge in the future for the authority to continue to make the necessary savings and demonstrate that it has been able to make proper arrangements.

# Appendices



## Appendix 1:

# Key issues and recommendations

Our audit work on the Authority's 2017-18 financial statements has identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

We have given each recommendation a risk rating and agreed what action management will need to take.

### Priority Rating for Recommendations

<b>1</b>	<p><b>Priority One:</b> Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> <p>Recommendations Raised: 0</p>	<b>2</b>	<p><b>Priority Two:</b> Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> <p>Recommendations Raised: 1</p>	<b>3</b>	<p><b>Priority Three:</b> Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> <p>Recommendations Raised: 1</p>
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No.	Risk	Issue & Recommendation	Management Response
1	2	<p><b>Completeness of the contracts register</b></p> <p>As part of our work over contract expenditure, we compared the largest suppliers by expenditure to the Authority's contracts register, as published on its website.</p> <p>This analysis identified six supplier contracts that were not listed on the contracts register.</p> <p><b>Risk</b></p> <p>The Authority does not meet its obligations under the Local Government Transparency Code 2015 to make contract information publicly available.</p> <p><b>Recommendation</b></p> <p>The Authority should ensure that its published contracts register is updated to include the identified suppliers, and complete an additional check to ensure that no further contracts are incorrectly excluded from the register.</p>	<p>We fully understand the importance of ensuring that our Contracts Register is kept up to date. We will brief all Service Delivery Managers and ensure that a reminder is issued every quarter.</p> <p><b>Responsible Officer</b></p> <p>Jonathan Eatough – Assistant Director: Governance, Procurement and Commissioning</p> <p><b>Implementation Deadline</b></p> <p>30 August 2018</p>

# Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
2	3	<p><b>Enforcement of password policy</b></p> <p>Our IT controls testing identified that, for each system tested, certain password parameters for were not in line with the parameters outlined in the Authority’s Password Policy. As an additional control, however, users must first sign on to the system via another set of controls, and as there is a double layer of access authorisation we consider the risk to be mitigated.</p> <p><b>Risk</b></p> <p>Insufficiently secure passwords are enforced, leading to a higher risk of unauthorised system access.</p> <p><b>Recommendation</b></p> <p>The Authority should enforce system password parameters in line with its policy, or update its policy to reflect the variances in system password parameters.</p>	<p>It should be noted that dual sign-on is in operation i.e. employees need a password to access the corporate network prior to accessing individual applications which reduces any risk. ICT are working on all applications to see how they can bring them up to the standards in the corporate policy. This however requires input from system suppliers as their functionality doesn’t allow the complexity of password set out in our corporate policy. Changes to the Agresso password have recently been approved and work on the other systems will continue. If necessary, the corporate policy may need to be updated to reflect the capabilities of different systems.</p> <p><b>Responsible Officer</b></p> <p>Fliss Mercer – Assistant Director: Commercial Services</p> <p><b>Implementation Deadline</b></p> <p>March 2019</p>

## Appendix 2:

# Follow-up of prior year recommendations

The Authority has implemented all of the recommendations raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17* and re-iterates any recommendations still outstanding.

### Number of recommendations that were

Included in the original report	<b>3</b>
Implemented in year or superseded	<b>3</b>
Outstanding at the time of our interim audit	-

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
1	1	<p><b>Related party declarations</b></p> <p>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.</p> <p>Related Party Declarations need to be completed and returned on a timely basis so that the Authority is aware where such relationships may exist.</p> <p>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.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p>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.</p> <p><b>Responsible Officer</b></p> <p>Ken Clarke, AD: Finance &amp; HR; Bernie Morris, Finance Team</p> <p><b>Implementation Deadline</b></p> <p>March 2018</p>	<p>We have received copies of all related party declarations required from members and officers.</p> <p>We note that management circulated a detailed guidance note to all individuals required to declare interests with a deadline of 6 April 2018.</p> <p>We consider this recommendation to have been implemented.</p>

# Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
2	2	<p><b>2017/18 Early Closedown</b></p> <p>Over recent years the Finance team has demonstrated a strong track record of achieving closure of the accounts.</p> <p>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.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p>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.</p> <p><b>Responsible Officer</b></p> <p>Pauline Harris –Finance Manager; Bernie Morris – Finance Team Leader</p> <p><b>Implementation Deadline</b></p> <p>Now to 31 May 2018</p>	<p>As detailed on pages 8 and 9, we consider that the Authority’s approach to the accounts production process is adequate.</p> <p>Draft accounts were produced by the deadline of 31 May, and working papers are of suitable quality.</p> <p>We consider this recommendation to have been implemented.</p>

**Appendix 2:**

# Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
3	3	<p><b>Completeness of valuation information</b></p> <p>We identified one instance where incomplete information was provided to the valuer, resulting in an incorrect valuation and audit difference.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p>The error occurred due to a missing completion certificate which resulted in the capital spend relating to the asset being incorrect on the valuer's 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.</p> <p><b>Responsible Officer</b></p> <p>Bernie Morris, Finance Team Leader; James Dunn, SDM Estates &amp; Investments</p> <p><b>Implementation Deadline</b></p> <p>30 September 2017</p>	<p>We have reviewed the Authority's five year revaluation programme, as well as revaluations made in year to confirm that this is consistent with the fixed asset register. No issues were noted.</p> <p>We consider this recommendation to have been implemented.</p>

## 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.

We are pleased to report that we have identified no significant adjusted or unadjusted misstatements within the financial statements.

### Presentational adjustments - Authority

We identified a number of presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code').

Whilst the majority of these adjustments were not significant, we identified one adjustment of a more significant nature as follows:

**Table 1: Presentational adjustments – Authority**

No.	Basis of audit difference
1	Inclusion of disclosure note of the movements within earmarked reserves, in line with the CIPFA Code of Practice paragraph 3.4.2.57.

# 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 2017-18*, presented to you in January 2018.

Materiality for the Group and Authority accounts was set at £4.5 million which equates to around one 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, an individual difference is 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, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

## Appendix 5:

# Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified no adjusted differences as a result of our audit of the Authority's financial statements.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the Authority's financial statements
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	<p>We have set out our assessment of the Authority's internal control environment, including confirmation that there were no significant deficiencies identified, in Section one of this report (see pages 3 to 6).</p> <p>We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than any deficiencies identified in this report.</p>
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Members or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

**Appendix 5:**

# Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Other information	<p>No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement.</p> <p>These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.</p>
Our declaration of independence and any breaches of independence	<p>No matters to report.</p> <p>The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.</p> <p>See Appendix 6 for further details.</p>
Accounting practices	<p>Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.</p>
Significant matters discussed or subject to correspondence with management	<p>There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.</p>



# Declaration of independence

## **ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF TELFORD AND WREKIN COUNCIL**

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

### **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 partners, audit directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

## Appendix 6:

# Declaration of independence (cont.)

## Independence and objectivity considerations relating to the provision of non-audit services

### Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
PSAA scale fee	117,119	117,119
Additional work over Group accounts	815	815
Audit of controlled entities (Nuplace Ltd)	9,850	9,850
Response to 2015/16 elector question (fee raised in 2016/17)	-	4,570
<b>Total audit services</b>	<b>127,784</b>	<b>132,354</b>
Allowable non-audit services – Teachers Pensions return	3,500	3,500
Audit related assurance services	-	-
Mandatory assurance services – Housing Benefit Subsidy return	9,239	7,155
<b>Total Non Audit Services</b>	<b>12,739</b>	<b>10,655</b>

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.1:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

We confirm that all non-audit services were reported to the audit committee or equivalent.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table on the following page.

## Appendix 6:

# Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
<b>Audit-related assurance services</b>				
Grant Certification – Teachers Pensions Return	<p>The nature of these audit-related services is to provide independent assurance on this return. As such we do not consider them to create any independence threats.</p> <p><b>Self-interest:</b> These engagements are performed under externally specified work programs. 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 do not act as advocates for the Council in any aspect of this work.</p> <p><b>Intimidation:</b> Not applicable</p>	Fixed Fee	3,500	3,500
<b>Mandatory assurance services</b>				
Grant Certification – Housing Benefit Subsidy Return	<p>The nature of this mandatory assurance service is to provide independent assurance on the return. As such we do not consider it to create any independence threats.</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 do not act as advocates for the Council in any aspect of this work.</p> <p><b>Intimidation:</b> Not applicable</p>	Fixed Fee	9,239	9,239

## Appendix 6:

# Declaration of independence (cont.)

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period.

### **Independence and objectivity considerations relating to other matters**

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

### **Confirmation of audit independence**

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

**Ian Pennington**

**Director, KPMG LLP**

## Appendix 7:

# Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £117,119 plus VAT (£117,119 in 2016/17), which is consistent with the prior year.

Our work on the certification of the Authority's Housing Benefit Subsidy return is planned for August 2018. The planned scale fee for this is £9,239 plus VAT (£7,155 plus VAT in 2016/17). Planned fees for other grants and claims which do not fall under the PSAA arrangements amount to £3,500 plus VAT (£3,500 plus VAT in 2016/17), see further details below.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
<b>Accounts opinion and value for money work</b>		
PSAA Scale fee (Telford and Wrekin Council)	117,119	117,119
Additional fee in relation to group consolidation	808	808
Additional fee in relation to 2015/16 elector question	-	4,570
<b>Total audit services</b>	<b>117,927</b>	<b>122,497</b>
<b>Mandatory assurance services</b>		
Housing Benefits Certification (work planned for August 2018)	9,239	7,155
<b>Total mandatory assurance services</b>	<b>9,239</b>	<b>7,155</b>
<b>Audit-related assurance services</b>		
Teachers' Pension Return (work planned for October 2018)	3,500	3,500
<b>Total audit-related assurance services</b>	<b>3,500</b>	<b>3,500</b>
<b>Total non-audit services</b>	<b>12,739</b>	<b>10,655</b>
<b>Grand total fees for the Authority</b>	<b>130,666</b>	<b>133,152</b>





The key contacts in relation to our audit are:

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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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://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.

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