



Telford & Wrekin
C O U N C I L

Addenbrooke House Ironmasters Way Telford TF3 4NT

AUDIT COMMITTEE

Date **Tuesday, 28 January 2020** Time **6.00 pm**
Venue **Meeting Rooms G3/G4, Addenbrooke House, Ironmasters Way, Telford, TF3 4NT**

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Committee Membership: Councillors N A M England (Chair), V J Holt, A Lawrence, K S Sahota, C F Smith (Vice-Chair), W L Tomlinson and P Watling

AGENDA

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|----|---|---------|
| 5. | External Audit Plan 2019/20 | 3 - 22 |
| 6. | External Audit Grants Report 2018/19 | 23 - 78 |

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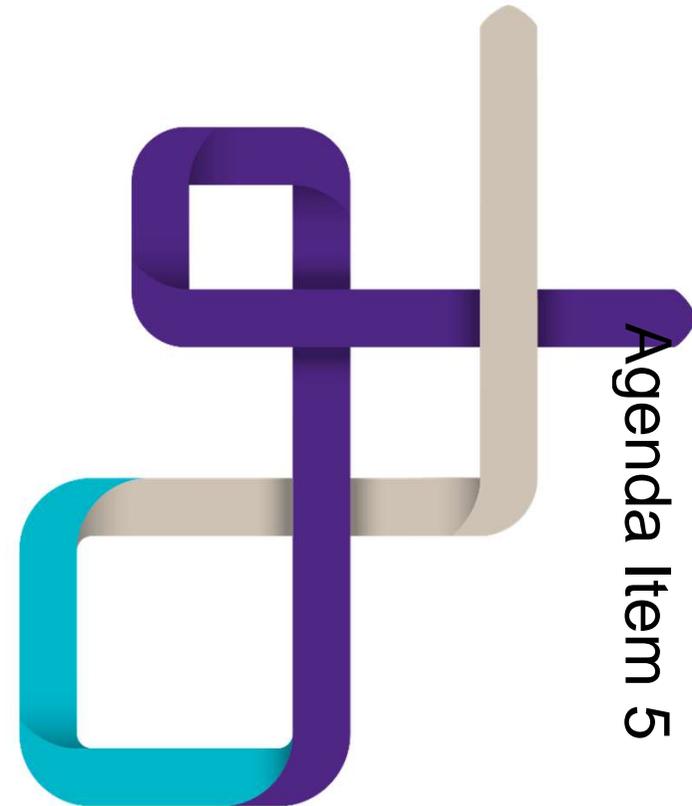


External Audit Plan

Year ending 31 March 2020

Telford & Wrekin Council
January 2020

Page 3



Agenda Item 5

Contents



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Page 4

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Section	Page
1. Introduction & headlines	3
2. Key matters impacting our audit	4
3. Group audit scope and risk assessment	5
4. Significant risks identified	6
5. Other risks identified	10
6. Other matters	11
7. Materiality	12
8. Value for Money arrangements	13
9. Audit logistics & team	14
10. Audit fees	15
11. Independence & non-audit services	16
Appendix	
A. Audit quality – national context	18

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Telford & Wrekin Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in *the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Telford & Wrekin Council. We draw your attention to both of these documents on the [PSAA website](#).*

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Group Accounts

The Council is required to prepare group financial statements that consolidate the financial information of its housing company NuPlace Limited We will consider the consolidation process and whether the group accounts include all necessary disclosures.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls – Under ISA 240, there is a presumed risk of management override of controls present in all entities;
- Valuation of property, plant and equipment – The Council's revaluation of its assets in line with its rolling plan may lead to a material misstatement;
- Valuation of the pension fund net liability – The estimate of the valuation of the pension fund's net liability may be materially misstated

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £7.6m (PY £7.5m) for the group and £7.5m for the Authority, which equates to 1.61% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £375,000 (PY £375,000). A specific materiality of £100,000 has been set for senior officer remuneration.

Value for Money arrangements

We are currently undertaking our Value for Money risk assessment and will report to you in our upcoming progress report any areas that require significant consideration. The key risk criteria fall into three main categories as follows; informed decision making, working with partners and other third parties and sustainable resource deployment. Further detail on this work is provided at page 13 of this report.

Audit logistics

Our interim visit will take place in February and March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be verbally discussed with the committee (PY: £96,182) during the presentation of the report.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Telford & Wrekin a challenging savings target of £6.1m was required to achieve a balanced budget in 19/20. As at the time of writing, the most recent financial information available (October 2019) suggests that the Council will achieve its spending targets. Some centrally held contingency reserves will be required to do so, however it is expected around £2.2m of this will remain at year end.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Implementation of IFRS 16 - Leases

The public sector is required to adopt this new standard with effect from 1 April 2020. In summary, from this date the Council will no longer be able to distinguish between operating and finance leases within its financial statements. Therefore, the finance team will need to design and implement sufficient controls to ensure that all leases are identified and recognised appropriately going forward.

The CIPFA Code requires the Council to disclose the expected impact of IFRS16 as a note to its 19/20 financial statements. Therefore, the required controls and processes to identify all leases and appropriate treatment will need to be identified and put in place during the 19/20 close down process.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of group and will review related disclosures in the financial statements.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audi Plan, has been agreed with the Assistant Director, Finance & Human Resources and is subject to PSAA agreement.

- Our proposed response is outlined in detail in Section 5; Other risks identified.

3. Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Telford & Wrekin Authority	Yes		<ul style="list-style-type: none"> See pages 6 to 9 	Full scope UK statutory audit performed by Grant Thornton UK LLP
NuPlace Limited	No		No significant risks identified at the group level.	Analytical procedures performed at the group level.

Page 7

Key changes within the group:

- No significant changes during 2019/20

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component’s financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Group and Authority	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Telford & Wrekin Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Telford & Wrekin Council.</p>

Page 8

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Authority	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Group and Authority	<p>The Council's pension fund net liability represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the value involved (£315 million in the Council's balance sheet as at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We have therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtain assurances from the auditor of Shropshire County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Group and Authority	<p>The Council revalues its land and buildings on a three-yearly basis.</p> <p>To ensure the carrying value of the remaining properties not revalued in year in the Council and group financial statements is not materially different from the current value at the financial statements date, the Council requests a desktop valuation from its valuation expert. This valuation represents a significant estimate by management in the financial statements due to the value involved (£465 million at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We have therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Council's asset register

5. Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	Group and Authority	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p>	<p>We will:</p> <ul style="list-style-type: none"> Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.
Page 12		<p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

6. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
 - Issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

7. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

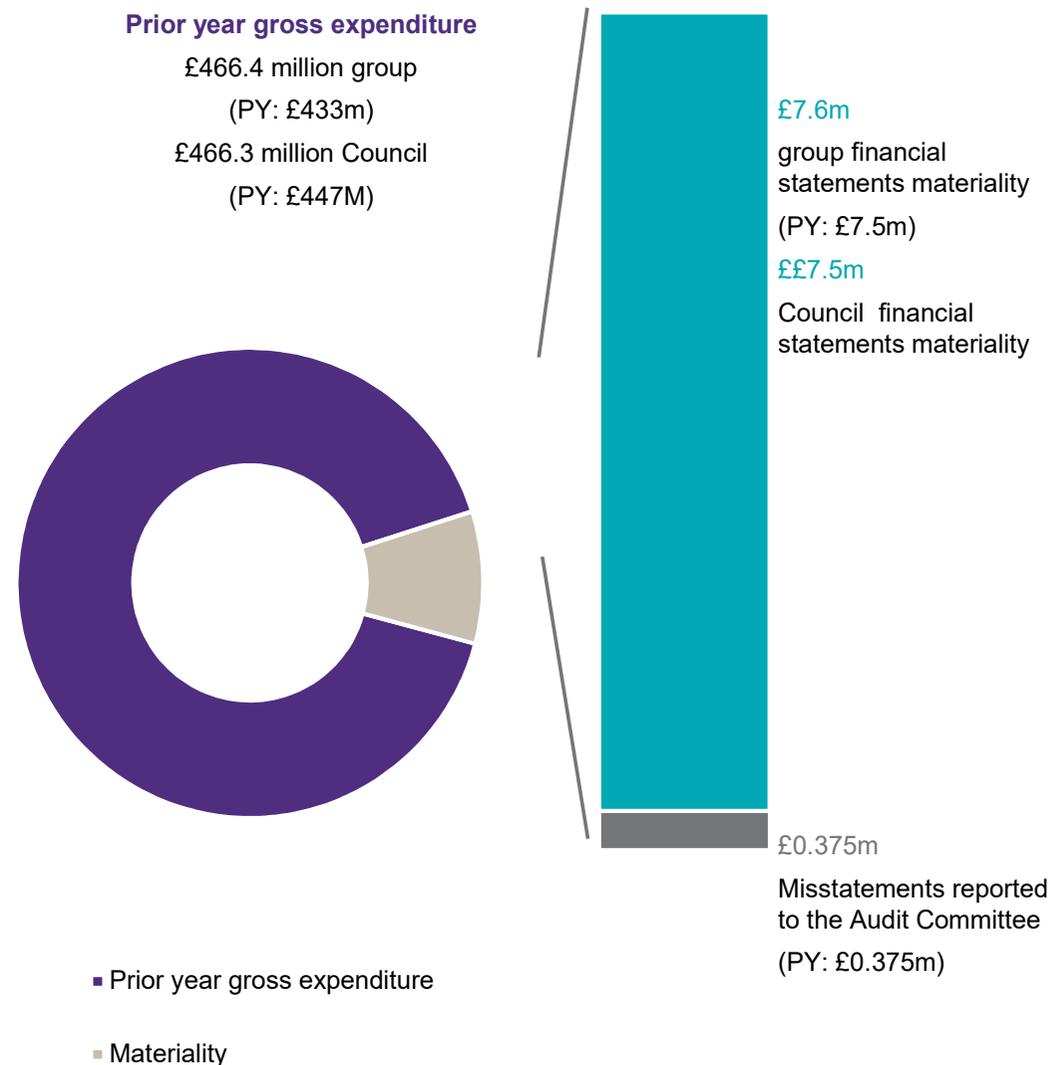
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £7.6m (PY £7.5m) for the group and £7.5m for the Council, which equates to 1.6% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a low level of precision which we have determined to be £100,000 for disclosures of senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report 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 unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £375,000

If 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.



8. Value for Money arrangements

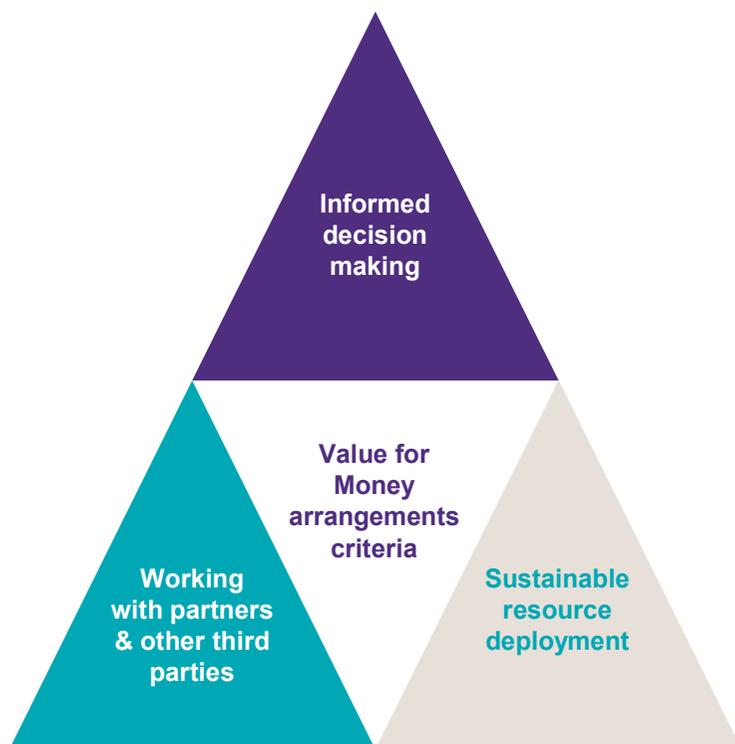
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

We are currently undertaking our initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we are considering:

- knowledge gained on the Authority from our initial planning procedures.
- the findings of other inspectorates and review agencies, including Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We will report to the subsequent May Audit Committee on the results of our VFM risk assessment and progress of our fieldwork in this area.

Any risks requiring significant audit consideration will be communicated to you in a separate VFM plan.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.

9. Audit logistics & team



Richard Percival, Engagement Lead

Richard will be the main point of contact for the Chair, s151 Officer and Committee members. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Richard will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit. Richard will sign your audit opinion.



David Rowley, Audit Manager

David will work with the Assistant Director: Finance & HR (CFO) and senior finance team ensuring audit work is delivered and any accounting issues are addressed on a timely basis. She will attend Audit Committee with Richard and supervise Siobhan in leading the onsite team. David will undertake reviews of the team's work and draft clear, concise and understandable reports as well as completing the work for the value for money conclusion.



Siobhan Barnard, Audit Incharge

Siobhan will be the day to day contact for the audit, organising our visits and liaising with Council staff. He will lead the on-site team and will monitor deliverables, manage our query log ensuring that any significant issues and adjustments are highlighted to management as soon as possible.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

10. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Assistant Director, Finance & Human Resources and is subject to PSAA agreement.

Page 17

	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£99,182	TBC
Total audit fees (excluding VAT)	£99,182	TBC

Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

11. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
Audit related:			
Certification of Teachers' Pension Return	4,800 (estimate TBC)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,800 in comparison to the total fee for the audit of £96k and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit Return	9,500 (estimate TBC)	Self-Interest (because this is a recurring fee)	As above.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.ie/about/transparency-report/>

Appendices

A. Audit Quality – national context

Page 19

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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Informing the audit risk assessment for Telford and Wrekin Council 2019/20



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Table of Contents

Page 25

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	16
Impact of Laws and Regulations	17
Going Concern	19
Going Concern Considerations	20
Related Parties	25
Accounting Estimates	28
Appendix A Accounting Estimates	29

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Telford and Wrekin Council's external auditors and Telford and Wrekin Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Telford and Wrekin Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	<p>Areas that we will focus on which could have a significant impact on the financial statements for 2019/20:</p> <p>(i) Valuation of fixed assets – following the 18/19 audit, work is in progress to move away from the 5 yearly valuation cycle with a significantly higher proportion of assets due to be valued in 19/20. Indexation will be used to evidence that the risk of mis-statement is not material.</p> <p>(ii) Any unforeseen legal rulings which have a financial impact on local authorities, such as the McCloud judgement which had a significant impact on the Pension Fund valuation in 2018/19</p> <p>(iii) Adults & Childrens Social Care - the overall outturn position will be impacted by any additional pressures in Adults and Children’s Services in the remainder of the financial year.</p>
2. Have you considered the appropriateness of the accounting policies adopted by Telford and Wrekin Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	<p>Yes, we consider the accounting policies appropriate, with the exception of PPE where a change is planned as described below.</p> <p>Property, Plant & Equipment – valuation interval to be changed – currently 5 yearly intervals. The intention is to value around 70% (of NBV) in 2019/20 to minimise the risk of material mis-statement.</p>
3. Is there any use of financial instruments, including derivatives?	Financial instruments are carried in the balance sheet – Note 21 to the 18/19 Statement of Accounts lists the various categories, which are expected to continue to apply in 2019/20
4. Is Are you aware of any significant transaction outside the normal course of business?	No

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	Nothing material.
8. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	Not that we are aware of.
9. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Financial advice was obtained during 2019/20 from: LG Futures Ltd – funding and technical advice PWC – taxation advice in relation to Nuplace Arlingclose Ltd – treasury management advisors

General Enquiries of Management

Commercial in confidence

Question	Management response
<p>10. Other than in house solicitors, can you provide details of those solicitors utilised by Telford and Wrekin Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>The Council instructs a number of external solicitors on a wide range of different matters. Most of these are for discrete pieces of work which do not involve litigation against or for the Council. See below for more information on these:-</p> <p>NP Law – Compulsory Purchase Order case. This is an ongoing case on which NP Law have been instructed since 2018.</p> <p>Browne Jacobson – property, commercial and contract matters. Ongoing basis.</p> <p>Ward Hadaway – school academies work.</p> <p>Sharpe Pritchard – ongoing contracts work in relation to key high-value contracts.</p> <p>Freeths – property and commercial work – ongoing.</p> <p>Weightmans – childcare out of hours service and Adult Social Care.</p> <p>Gowling WLG – single status – ongoing.</p> <p>Anthony Collins – commercial work – ongoing</p> <p>Womble Bond Dickinson – commercial work ongoing.</p> <p>NB. Despite what has been said at the outset, Weightmans are our out of hours childcare advice providers and, if circumstances dictate, will bring emergency proceedings in Court to protect a child pending the return of in-house solicitors on the next working day. This may include litigation on the part of the Council but, typically, in relation to interim proceedings such as an EPO.</p> <p>Those matters where solicitors have been instructed in litigation are as follows:-</p> <p>Veale Wasborough Vizards – one instruction in relation to negotiated departure of officer.</p> <p>BLM – instructed by our insurers in relation to claims made against the authority and for which insurance cover is provided. Primarily personal injury claims.</p> <p>Weightmans – instructed by our insurers in relation to claims made against the authority and for which insurance cover is provided. Primarily personal injury claims.</p>

Page 30

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Telford and Wrekin Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Risk & Assurance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Telford and Wrekin Council's management.

Fraud risk assessment

Page 32

Question	Management response
<p>1. Have Telford and Wrekin Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council’s risk management processes link to financial reporting?</p>	<p>The risk of material misstatement in the financial statements due to fraud is low because:</p> <ul style="list-style-type: none"> •Arrangements are in place to prevent and detect fraud which includes the work undertaken by Internal Audit, The Investigation Team, Council Tax and Benefits Teams. •The Internal Audit plan covers the key systems which feed into the Statement of Accounts and audits are undertaken on a risk-based approach. •The Chief Executive, Executive Directors, Directors and Service Delivery Mangers complete and sign assurance statements on an annual basis confirming that the governance framework has been operating within their areas of responsibility. •There is an Anti-Fraud and Corruption Policy in place which is monitored and reviewed. Periodic reports are provided to Senior Management Team and cascaded to teams.
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The Investigation Team have a fraud risk register highlighting services most at risk. The Council has identified that Social Care is a key are most at risk to fraud. However, in terms of volume, risks are more prevalent in Revenues and Benefits.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Telford and Wrekin Council as a whole or within specific departments since 1 April 2019? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>In terms of internal fraud against the council, two matters are currently under investigation. These cases are for relatively low financial amounts, e.g. less than £10k.</p> <p>External to the Council, there have been a number of allegations received regarding fraud by members of the public. These are largely related to Revenues matters. The Investigation Team investigates these matters.</p> <p>Matters investigated are discussed with relevant management and messages/publicity are provided both internally and externally.</p>

Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Telford and Wrekin Council where fraud is more likely to occur?</p>	<p>See question 2 above. Fraud risks have been identified relating to Social Care and in particular Direct Payments. The Investigation Team continue to work with this service in the prevention, detection and investigation of fraud in this area.</p> <p>There are no locations within Telford & Wrekin where fraud is more likely to occur.</p>
<p>5. What processes do Telford and Wrekin Council have in place to identify and respond to risks of fraud?</p>	<p>Processes in place to identify and respond to fraud:</p> <ul style="list-style-type: none"> •Internal Audit work plan. •Internal Audit along with the Investigations Team undertake proactive fraud work based on a fraud risk register. •Fraud and corruption activities are undertaken by Trading Standards. •Anti-Fraud & Corruption Policy. •Whistleblowing and fraud reporting procedures are in place which allow staff and members of the public to report concerns relating to fraud and error to the Investigation Team via a variety channels. <p>Frauds highlighted either from the National Anti Fraud Network (NAFN) or the West Midlands Fraud Group are communicated to appropriate stakeholders as soon as they are received.</p>

Fraud risk assessment

Question	Management response
<p>6. How would you assess the overall control environment for Telford and Wrekin Council, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Assurance is provided to the Audit Committee through:</p> <ul style="list-style-type: none"> •Quarterly internal audit reports are presented to the Committee providing an update on the work of internal audit with particular focus on Amber and Red reports. •Executive Directors/Directors/Service Delivery Managers attend, on request, to provide additional information where requested. •External Audit provide an Annual Audit Letter to the Committee highlighting any areas of concern and recommendations following the annual audit of accounts. •An Anti-Fraud Report is presented at the end of each financial year. •The Strategic Risk Register is presented to Audit Committee. •Finance & Legal comments in all reports; business case approval for major investments . <p>Management is not aware of any areas where there is potential for override of control or inappropriate influence over the financial reporting process.</p> <p>Reconciliations are undertaken regularly and there is appropriate separation of duties in place with review/challenge by Senior Finance Officers.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>No particular areas have been identified where there is a potential for misreporting.</p>

Fraud risk assessment

Question	Management response
<p>8. How do Telford and Wrekin Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported?</p>	<p>Training –Fraud module included for all new starters. Core behaviours for all employees. Induction of new employees. Whistleblowing Policy. Publicity on fraud matters that have been taken to court. Anti-Fraud & Corruption Policy.</p> <p>The Whistleblowing Policy encourages staff to report any concerns regarding fraud and irregularity through a variety of channels.</p> <p>The Council's Core behaviours encourage staff to report any fraudulent/otherwise unacceptable behaviour.</p> <p>The authority receives a constant flow of allegations, most notably relating to Revenues related fraud by the general public. Referrals have also been received relating to Adult Social Care and a number of internal matters.</p>

Fraud risk assessment

Question	Management response
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Council Tax Support, Single Person Discount and Council Tax liability are areas where fraud is common. The Investigation Team undertake considerable work in this area. There are strong reporting channels where staff and members of the public report their concerns. The Revenues Service undertake an annual Single Person Discount review exercise by using credit data obtained from a third party, and they also take part in the National Fraud Initiative's single person discount review.</p> <p>Direct Payment and Social Care is a growing area of fraud. Significant work has been undertaken by the Investigation Team to increase awareness of fraud in this area and encourage staff to report their concerns.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>We are not aware of any related party relationships or transactions that could give rise to fraud. Related party transactions have to be disclosed by elected Members and senior officers.</p> <p>All members and officers have to disclose relevant interests in the register of interests.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>The Audit Committee's terms of reference include a number of measures concerning internal control and fraud matters. In the main these include:</p> <ul style="list-style-type: none"> •Receiving regular updates on the work of internal audit which would include fraud risks •Receiving an annual report on anti-fraud and corruption •Approving the Councils Anti-Fraud & Corruption Policy and the Whistleblowing Policy
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No specific whistle blower reports have been made since April 2019.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No specific Bribery Act referrals have been made since April 2019.</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Telford and Wrekin Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Telford and Wrekin Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>The Council has a robust Governance Framework in place.</p> <p>The Council has a Monitoring Officer and Section 151 Officer who provide assurance both supported by adequately staffed and trained teams of professional officers.</p> <p>Council/Cabinet reports include a Legal Comment which is completed and signed off by a senior officer in Legal Services.</p> <p>Internal Audit Work.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>As above. The Monitoring Officer ensures lawfulness and fairness of decision making. The Monitoring Officer will report to Full Council if he considers that any proposal, decision or omission would give rise to unlawfulness. Other Statutory Officers of the authority also provide assurance in relation to their specific function.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>No –the position will be reviewed again at the 31 March each year as part of the annual accounts process.</p>

Impact of laws and regulations

Question	Management response
4. What arrangements does Telford and Wrekin Council have in place to identify, evaluate and account for litigation or claims?	<p>Legal and Insurance work together to identify and evaluate any potential litigation or claims against the Council.</p> <p>Potential liabilities are included in the Statement of Accounts.</p>
5. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None
6. Is there any actual or potential litigation or claims that would affect the financial statements?	<p>It is considered that anything in excess of £50,000 would be reportable. The Council has a number of claims which are dealt with by its insurers. However, the financial liability associated with these claims is limited to the Council's insurance excess. In the current insurance year, that excess is £50,000 per claim. For claims relating to previous years, that excess is £20,000.</p> <p>In 2018/19, the Council disclosed a claim with a potential value of £1million. The Council made an offer to settle this claim at £20,000 (the equivalent of the Council's insurance excess at that time). No response was received to that offer and the file has been closed although the limitation period for this case has not yet expired and so, potentially, the claim could be resurrected by the Claimant.</p>

Going Concern

Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for Telford and Wrekin Council? What was the outcome of that assessment?</p>	<p>Under the current local government structure and statutory provisions, authorities cannot be created or dissolved without statutory prescription, therefore the going concern basis of accounting will apply. In addition to this, the Council has a robust service and financial planning strategy, adequate reserves and contingencies, access to Public Works Loans Board borrowing, and a strong track record of delivering savings and a balanced budget for over 10 years, which will ensure that it does continue to operate into the foreseeable future.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with Telford and Wrekin Council's Business Plan and the financial information provided to Telford and Wrekin Council throughout the year?</p>	<p>Yes –financial assumptions in the Statement of Accounts, revenue budget, capital programme, capital and investment strategies, treasury management strategy and Council plan are all consistent.</p>

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	Yes
4. Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	Following a query raised during the 18/19 audit relating to control accounts, the Council has agreed to review debtor and creditor balances during 2019/20.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No

Going concern considerations

Question	Management response
<p>6. Does Telford and Wrekin Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes although given staffing reductions to meet savings targets, there are some single points of failure which are addressed through workforce planning processes as far as possible.</p> <p>The recruitment process, including job descriptions and person specifications are designed to ensure the appropriate skills and experience are sought. Restructuring/service transformation have a focus on ensuring skills and experience to deliver services are in place.</p> <p>The Council is active in terms of workforce planning, which aligns with service planning and delivery of service objectives.</p> <p>There is a comprehensive corporate learning programme in place for managers and other employees as well as specific training relevant to specific roles. There is a strong focus on organisational development, including a Leadership programme.</p> <p>The Council will engage external professionals where specific skills are required that are not available in-house, or agency workers will be engaged when necessary to fill essential roles on a short-term basis. A Use of Consultants Business Case has to be approved to ensure appropriate governance in place.</p>

Going concern considerations

Question	Management response
7. Does the Council have procedures in place to assess their ability to continue as a going concern?	<p>There is a robust Service & Financial Planning process and Strategy in place. Regular financial monitoring takes place with regular updates being presented to Senior Management Team and Cabinet; cost improvement plans are in place for areas of significant pressure.</p> <p>Overall spend is within budget and the Council has a long track record of strong financial management being under budget for the past 11 years and will have delivered ongoing savings totalling £123m by the end of 2019/20 in accordance with the budgets approved for each year.</p>
8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	None known
8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	None known

Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Audit Committee ?</p> <p>How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>Yes -through the Statement of Accounts</p> <p>The Audit Committee receives both the draft and final Statement of Accounts and has opportunity to raise queries. Prior to approval of the final SOA officers provide an overview/training session highlighting key matters in the accounts and again providing opportunity for queries.</p> <p>Members have access to all Council reports, including the budget and regular financial management reports which provide assurance on the current and projected financial position of the authority. The Council has a long track record of sound financial management having slightly underspent its budget for more than 10 consecutive years despite having to deliver £123m of ongoing budget savings.</p>

Related Parties

Matters in relation to Related Parties

Telford & Wrekin are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Telford and Wrekin Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Relating Parties

Question	Management response
1. What controls does Telford and Wrekin Council have in place to identify, account for and disclose related party transactions and relationships ?	Register of Interests for Members and Officers. Completion of annual declaration by Senior Officers and Members as part of Statement of Accounts process. Governance Statement.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

Telford and Wrekin Council apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)	No
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes –see Appendix A below.
3. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The accounting policies and notes included in the Statement of Accounts provide information. External Audit provide assurance.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment valuations	<p>Full valuation involving an inspection is carried out every 3 years on a rolling programme for operational properties, where at least 70% of the value of all properties will be completed on an annual basis. An impairment and valuation review is carried out as a desk value for properties not valued in year.</p> <p>Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list price adjusted for asset condition. Historical cost is used for infrastructure assets and community assets.</p> <p>All assets are valued at 01.04.2019.</p>	Internal Valuer used	Use Estates & Investments Service (RICS Registered Valuers) for the property element of PPE valuations.	Valuations are based on recommendations by CIPFA and made in line with RICS guidance. Assumptions are set out in the valuer's report including comments on market uncertainty and alternative valuation methods that may return a different result.	No (although revaluation cycle for PPE has reduced from 5 years to 3 years)

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of PPE	<p>The following useful lives have been used in the calculation of depreciation:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Other Land and Buildings –5 to 60 years <input type="checkbox"/> Vehicles, Plant, Furniture & Equipment –3 to 25 years <input type="checkbox"/> Infrastructure –25 to 40 years 	<p>Specific asset lives applied to buildings. Consistent asset lives applied to each asset category.</p>	<p>Use Estates & Investment Service (RICS Registered valuer) for buildings valuations. Other assets considered by Estates & Investment Service Delivery Manager and Group Accountant Corporate and Health & Well-Being Finance</p>	<p>The length of the life is determined at the point of acquisition or revaluation. Major components are depreciated separately when they meet the componentisation policy.</p>	<p>No</p>

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	Depreciation is provided for all fixed assets with a finite useful life on a straight-line basis.	Consistent application of depreciation method across all assets.	No	The asset is not depreciated until it is available for use and each significant part of PPE is depreciated separately. Asset lives are determined at acquisition/revaluation. Depreciation is calculated on a straight line basis. The asset lives are recorded in the asset register.	No
Investment Property valuations	Investment properties are valued annually at Fair Value. An impairment and valuation review is carried out as a desk value for properties not valued in year. All assets are valued at 01.04.2019	Internal Valuer used	Use Estates & Investments Service (RICS Registered Valuers) for the property element of Investment Property valuations.	Valuations are based on recommendations by CIPFA and made in line with RICS guidance. Assumptions are set out in the valuer's report including comments on market uncertainty and alternative valuation methods that may return a different result.	<u>No</u>

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	<p>Assets are assessed at the year-end for any indication that an asset may be impaired. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.</p> <p>Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. This assessment is made by the internal valuer for land and buildings and by Property Services Manager and capital accountant (and other relevant officers for the asset type) for other assets.</p>	Impairment reviews at year end. Internal Valuer used	Use Property Services (RICS Registered valuer) for buildings valuations.	Valuations are made in-line with RICS guidance.	No.



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead allocation	Central support costs are apportioned to services based on an agreed criteria as detailed in the CEC Allocation spreadsheet.	All support service costs centres are allocated according to the agreed CEC Allocation spreadsheet.	No	Apportionment bases are reviewed annually.	No
Measurement of Financial Instruments	The Council values financial instruments at amortised cost. (The fair value of financial instruments are disclosed in the notes to the accounts).	Take advice from finance professionals	External Treasury advisors & PWLB	Take advice from finance professionals and external Treasury advisors.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year the Council becomes aware of the obligation.	No.	Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Bad Debt Provision	A provision is estimated using a proportion basis of an aged debt listing.	Revenues provide the aged debt listing and Finance calculate the provision.	No.	Consistent proportion used across aged debt as per the Code.	No.
Accruals	Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Review financial systems and question service managers to identify where goods have been received but not paid for.	No	Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	Section 151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date this is an un-adjusting event. A note to the accounts is included, identifying the nature of the event and where possible estimates of the financial	The Section 151 Officer is notified by relevant managers.	This would be considered on individual circumstances.	This would be considered on individual circumstance.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Liability	The Council is an admitted body to the Shropshire County Local Government Pension Scheme. The administering authority (Shropshire Council) engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year. Additional information will be submitted to the Actuary should the need arise e.g. McCloud judgements etc.	Consulting actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI Finance Lease Liability	The operator's financial model is used as the basis for calculating the liability.	The operator's financial model is used as the basis for calculating entries and this is reviewed by Finance on an annual basis.	No.	The construction elements of the annual unitary charge is accounted for as a finance lease. Minimum lease payments are made under these leases and assets recognised under these leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.	No.



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The Annual Audit Letter for the Borough of Telford & Wrekin Council

Year ended 31 March 2019
21 January 2020



Contents



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Page 64

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Section

1. Executive Summary
2. Audit of the Financial Statements
3. Value for Money conclusion

Page

- 3
4
9

Appendices

- A Reports issued and fees

Slide 2

EJM1

I've put myself and Siobhan in here as it relates to last year. But feel free to change to whoever you want.....

Emily J Mayne, 06/01/2020

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at the Borough of Telford & Wrekin Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 23 July 2019 and revised on 1 October 2019.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £7,500,000, which is 1.6% of the group's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 21 November 2019.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 21 November 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim was finalised on 28 November 2019.
Certificate	We certified that we have completed the audit of the financial statements of the Borough of Telford & Wrekin Council in accordance with the requirements of the Code of Audit Practice on 21 November 2019.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
21 January 2020

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's group financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £7,500,000, which is 1.6% of the group's gross revenue expenditure. We determined materiality for the audit of the Council's financial statements to be £7,400,000, which is 1.6% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for and senior officer remuneration at £100,000 – as this is a sensitive item over which stakeholders will expect the Council to take particular care.

We set a lower threshold of £300,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there was little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Telford & Wrekin Council, meant that all forms of fraud were seen as unacceptable 	<p>Therefore we do not consider this to be a significant risk for the Borough of Telford & Wrekin Council.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions 	<p>Our testing did not identify any issues in relation to management over-ride of controls.</p>

Audit of the Financial Statements

Significant Audit Risks – continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of the pension fund net liability</p> <p>The Council's pension fund net liability represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the value involved (£264 million in the Council's balance sheet as at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We have therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We have:</p> <ul style="list-style-type: none"> updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report obtained assurances from the auditor of Shropshire County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements <p>The Council's accounting policy on the valuation of the net pension fund liability is shown in note 1g (Employee Benefits) and related disclosures are included in notes 11, 12 and 13.</p>	<p>At the time the accounts were prepared there was significant uncertainty about whether the Government would have leave to appeal to the Supreme Court following the Court of Appeal's decision in the McCloud case concerning age discrimination in Judges and Firefighters' pension schemes. There were significant developments in this national issue during the course of our audit. In late June the Government was refused leave to appeal, which meant that the impact on local authorities pension liabilities became more certain.</p> <p>The Council commissioned an updated actuary report to consider the impact of the McCloud court ruling on pensions liabilities. As a result the net pension liabilities increased by £9.2 million. This has resulted in changes to the Council's primary financial statements, as well as a number of the notes to the financial statements. We tested these back to the actuarial report. There was no impact on the Council's useable reserves.</p> <p>We concluded that there was a low risk of material estimation uncertainty within the pension fund net liability disclosed within the financial statements.</p>

Audit of the Financial Statements

Significant Audit Risks – continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Council re-values its land and buildings on a five-yearly basis.</p> <p>To ensure the carrying value in the Council and group financial statements is not materially different from the current value at the financial statements date, the Council requests a desktop valuation from its valuation expert. This valuation represents a significant estimate by management in the financial statements due to the value involved (£472 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We have therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert discussed with the valuer the basis on which the valuation was carried out to ensure that the requirements of the Code are met challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested revaluations made during the year to see if they had been input correctly into the Council's asset register <p>The Council's accounting policies on land and buildings PPE valuations are shown in notes 1t (Property, Plant and Equipment), 1u (Depreciation) and 1v (Changes to Revenue in Respect of Property, Plant and Equipment) to the financial statements and related disclosures are included in note 15.</p>	<p>We noted that £218.1 million (87%) of Other Land and Buildings were not revalued in 2018/19. Although consistent with Code requirements we asked management to assess whether these 'assets not revalued' could present a material misstatement within the financial statements by assessing market movements and using their Valuers to provide estimates of their current value.</p> <p>Management in consultation with the valuer re-assessed assets not revalued.</p> <p>Following this re-assessment we concluded that there was a low risk of material estimation uncertainty in the carrying value of assets not revalued.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 21 November 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline. During our audit some queries relating to control accounts were highlighted, mainly due to problems disaggregating prior year balances in the Council's financial ledger. This made it difficult for the Council to provide full breakdowns of balances, resulting in difficulty for the audit team to identify samples from the population.

In obtaining these population breakdowns we identified historic balances which the Council agreed to remove as it overstated both the asset (debtor) and the liability (creditor). There are also non-material balances relating to VAT which the Council has agreed to investigate during 2019/20.

We also found that the inclusion of a deferred capital receipts reserve in relation to the Council's investment in NuPlace Limited did not comply with Code requirements. This required a material amendment to both the 2018/19 financial statements and a prior period adjustment of the 2017/18 comparatives.

Issues arising from the audit of the financial statements

We established and maintained a good working relationship with the finance team who responded promptly to our queries and challenges.

We reported the key issues from our audit to the group's Audit Committee on 23 July 2019. We issued a revised Audit Findings Report on 1 October 2019. Following a briefing to the Chair of Audit Committee on 21 November 2019 we issued our audit opinion.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which did not identify any issues for the group auditor to consider on 21 November 2019.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of the Borough of Telford and Wrekin Council in accordance with the requirements of the Code of Audit Practice on 21 November 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. The risks we identified and the work we performed are set out overleaf. In particular:

Financial resilience over the medium to long term – The Council has responded well to the financial challenges since 2010, managing future financial pressures and taking measured actions to maintain its financial sustainability. This has been delivered along with investment in core statutory services such as children’s services and adult social care. The Council, as with all Local Government bodies, is facing considerable uncertainty over its future funding and is considering various financial scenarios over the coming years. The need to make savings will continue as demand for statutory services continues to grow. The Council will need to deliver these savings to maintain financial balance in the medium term.

In summary, we concluded that the Council has effective plans in place to deliver its budget in 2019/20. There are sufficient reserves to temporarily cover shortfalls in savings or income shortfalls in 2019/20 and 2020/21. In 2018/19 a further £1.7 million was set aside to support the medium-term service giving a total of £21.3 million in the Budget Strategy Reserve. This is available to fund in-year budget shortfalls pending the delivery of ongoing budget savings or to fund upfront costs that will deliver ongoing revenue savings as part of a robust medium term service and financial planning strategy.

As part of the budget for 2019/20, the Council set a savings target of £6.1 million. It also forecast that around £25 million of further savings are needed over the three years (2019/20 – 2021/22) in addition to the £117 million already delivered to the end of 2018/19.

If Members continue to make appropriate and measured decisions, particularly in relation to service delivery and commercial activities, the Council should be well placed to develop further opportunities to deliver its priorities. An early priority for the new Council Administration is to identify key areas for new investment and the significant additional savings needed over the next three years. The Council needs to continue to be adaptive and agile, whilst managing the risk of service cuts if there are further reductions in its funding.

Delivery of core statutory services, particularly Adult Social Care and Children’s Safeguarding and Family Support Services

– The Council provides a number of statutory and non-statutory services. It also works in partnership with other organisations to deliver a range of services to the wider area. Set against a backdrop of austerity and significant financial savings delivered across all service areas, the Council continues to deliver a broad range of services. Key services are assessed by regulators and we have considered their reports as well as Council internal reporting and governance arrangements when reaching our conclusion.

In summary, the Council has arrangements to work closely with partners and regulators to ensure that any weaknesses identified are address and reported to Full Council. This includes partnership working across a number of public sector and voluntary bodies. The Council’s Scrutiny Committees play a key role in ensuring appropriate governance and reporting arrangements are in place for partnership working.

The Council commissioned independent Child Sexual Exploration inquiry which agreed its terms of reference with the Council’s Cabinet on 11 July 2019. This decision has created a significant focus for Council Officers and Members. The Council has taken a proactive approach in progressing a local inquiry following the lack of information on timescales for the national inquiry.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial resilience over the medium to long term</p> <p>The Service and Financial Planning Strategy 2019/20 – 2021/22 identifies a potential funding gap of £31 million by 2021/22 driven predominantly by cuts in government funding and increased costs in delivering statutory services. This projection is in addition to the £117.5 million already delivered since 2019/20.</p> <p>The Council is committed to investing further in Adult Social Care and Children’s Safeguarding and Family Support Services whilst also delivering £6.064 million of savings. The budget includes the use of £2.961 million of reserves to cushion the impact of the reducing Government funding and allow the level of investment required in statutory services.</p> <p>The Council’s approach to Service and Financial Planning is underpinned and informed by a Co-operative Council ethos, working together with the community and partners to collectively deliver the best outcomes with the combined resources in the local area.</p>	<p><u>2018/19</u></p> <p>The Council’s revenue position for 2018/19 delivered a net underspend of £0.275 million. Within this there were significant pressures in Children’s Services (£3.062 million overspend) and some pressures also in Commercial Services (£0.436 million overspend). These overspends were offset by savings elsewhere, the majority of which came from Finance and Human Resources (£3.060 million), a VAT refund (£1.730 million) and additional funding (£0.455 million). The Council also managed to increase the General Fund working balance by £0.275 million and transfer £3.915 million into earmarked reserves to support future funding pressures.</p> <p><u>2019/20</u></p> <p>The Council set a budget for 2019/20 with gross revenue expenditure of £398.5 million. The budget model includes many variables and will be regularly updated as further information becomes available. The Council has a savings target of £6.1 million for 2019/20 to enable it to break even with no planned use of the Budget Strategy Reserve to support financial delivery.</p> <p><u>Reserves</u></p> <p>Reserves as at 31 March 2019 remained at a healthy level. The General Fund balance moved from £4.807 million at 1 April 2018 to £5.082 million at 31 March 2019. The Council has continued to provide earmarked reserves where budget pressures are known, investing £4.046 million in Children’s Safeguarding and Family Support, £0.842 million for Adult Social Care services and £0.33 million to maintain existing subsidised bus routes.</p> <p><u>Capital</u></p> <p>The capital programme totals £70.18 million, with projected spend at 92.25% of the budget allocation.</p> <p>The 2019/20 capital programme relies on £4.782 million of capital receipts as part of its funding. Asset sales over the next five years totals £25.73 million and due to the timescales involved receipts are continually reviewed and any changes reflected in future budget projections. There are a number of new allocations and some slippage but overall at Quarter 1 the programme is projected to be on target.</p>	<p>The Financial Management Report presented to Cabinet on 11 July 2019 noted that the Council is on course to deliver its planned outturn position. Current projections indicate that £3.6 million less of the central contingency will be needed than was planned. Although this is positive, there are emerging financial pressures that need to be managed. Adult Social Care is currently projected to be £0.5 million over budget and Children’s Safeguarding and Family Support £1.6 million over budget. Action is being taken in both service areas to mitigate these projected overspends which currently are largely offset by a projected over-achievement of £2m within treasury management budgets.</p> <p>We reviewed savings plans and are satisfied that the assumptions made by the Council are reasonable. We also reviewed the key assumptions within the 2019/20 budget and found them to be reasonable.</p>

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial resilience over the medium to long term</p> <p>The Service and Financial Planning Strategy 2019/20 – 2021/22 identifies a potential funding gap of £31 million by 2021/22 driven predominantly by cuts in government funding and increased costs in delivering statutory services. This projection is in addition to the £117.5 million already delivered since 2019/10.</p> <p>The Council is committed to investing further in Adult Social Care and Children’s Safeguarding and Family Support Services whilst also delivering £6.064 million of savings. The budget includes the use of £2.961 million of reserves to cushion the impact of the reducing Government funding and allow the level of investment required in statutory services.</p> <p>The Council’s approach to Service and Financial Planning is underpinned and informed by a Co-operative Council ethos, working together with the community and partners to collectively deliver the best outcomes with the combined resources in the local area.</p>	<p><u>Looking ahead</u></p> <p>There is continuing significant uncertainty over future local government funding at a national level. The changes proposed by the Government to the local government finance system are due to come in to effect in 2020/21, but it is not clear what form these will take. This uncertainty is compounded by the potential impact of BREXIT, the continuing growth in demand for statutory services, particularly Children’s Services and Adult Social Care, as well as the likelihood that more schools will move to Academy status.</p> <p>A four-year programme to invest in, protect and care for the Borough was approved by Cabinet in May 2019. This identifies the Council’s strategic focus to 2023. The Council has adopted a financial strategy of:</p> <ul style="list-style-type: none"> • solving problems and promoting social responsibility to reduce demand for services • challenging and changing the way things are done • reducing dependency on Government grants. • being a modern organisation that seeks to always get the basics right. <p>It focuses on creating efficiencies to reduce expenditure, seeking greater partnership working and developing a more commercial approach where possible. The total income from commercial ventures in 2018/19 was £19.4 million, supporting front line services.</p> <p>The financial gap forecast by the Council by 2021/22 is £24.9 million. The Council has already made financial savings of £117 million since 2009/10 and continues to deliver services which are good quality and low in cost, so the financial challenge is significant. Many services provided are statutory, e.g. Education, Safeguarding Children and Adult Social Care (representing 57% of the Council’s budget) and many reserves are ring-fenced, further reducing the services and budgets from the overall expenditure base which can provide saving opportunities. Further budget reductions are likely to have significant service impacts impacting service users and the wider community and will need to be carefully managed.</p>	<p>The Council’s financial stability going forward is highly dependent on the factors set out in our findings. The Council needs to monitor decisions from the Government with regard to funding and respond accordingly. As well as responding to any Government funding decisions it also needs to ensure that it makes appropriate decisions with regard to Council Tax and ensures that its own income generation schemes and savings plans deliver.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and audit related services.

Reports issued

Report	Date issued
Audit Plan	30 May 2019
Audit Findings Report	23 July and 1 October 2019
Annual Audit Letter	28 January 2020

Page
75

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	£90,182	£99,182	£117,119

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £90,182 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee variation £
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	3,000
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	3,000
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000
Total		£9,000

A. Reports issued and fees (continued)

Fees for non-audit services

Service	Fees £
Audit related services	
- Housing Benefit Subsidy claim	9,500
- Teachers Pension Agency claim	4,800

Page 76

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and group. The table summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council and group's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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