

Telford & Wrekin
C O U N C I L

Addenbrooke House Ironmasters Way Telford TF3 4NT

AUDIT COMMITTEE

Date **Thursday, 27 May 2021** Time **6.00 pm**
Venue **Meeting Point House, Southwater Square, Telford, TF3 4HS**

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

AGENDA

- 5. Informing the Audit Risk Assessment (External Audit Interim Report 2020/21)** 3 - 36
To receive the report of Grant Thornton
- 6. External Audit Fee Letter and Plan for 2021/22** 37 - 60
To receive the report of Grant Thornton

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Informing the audit risk assessment for Telford and Wrekin Council 2020/21

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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.

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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,
- 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
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>Areas that we will focus on which could have a significant impact on the financial statements for 2020/21:</p> <p>(i) The Impact of Covid -19 – the impact on the outturn and pressures in relation to additional costs, lost income etc. Impact on estimation uncertainty (including PPE and Pension Fund valuations, expected credit losses, fair value of assets etc).</p> <p>(ii) Valuation of fixed assets –work has continued and we are now moving towards a 3 year revaluation cycle for Property, Plant and Equipment with the aim of revaluing 70% of the Opening Net Book Value of assets. As in 2019/20, indexation will be used to evidence that the risk of mis-statement is not material. The valuation date for 2020/21 is 1 December 2020 (moved from 1 April 2020). Due to the uncertainties relating to Covid-19, valuations may be reported on the basis of ‘material valuation uncertainty’ per the RICS Red Book Global.</p> <p>(ii) Any unforeseen legal rulings which have a financial impact on local authorities</p> <p>(iii) Adults & Children’s 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>

General Enquiries of Management

Question	Management response
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?	Yes, we consider the accounting policies appropriate. No changes are planned for 2020/21 (but note continued move to 3 year PPE valuations as stated last year)
3. Is there any use of financial instruments, including derivatives?	Financial instruments are carried in the balance sheet – Note 21 to the 19/20 Statement of Accounts lists the various categories, which are expected to continue to apply in 2020/21.
4. Are you aware of any significant transaction outside the normal course of business?	No
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	Currently not aware of any
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.

General Enquiries of Management

Question	Management response
<p>8. 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>Browne Jacobson – property, commercial and contract matters. Ongoing basis. Ward Hadaway – school academies work. Sharpe Pritchard – ongoing contracts work in relation to key high-value contracts. Freeths – property and commercial work – ongoing. Weightmans – childcare out of hours service and Adult Social Care. Gowling WLG – single status – ongoing. Anthony Collins – commercial work – ongoing 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>BLM – instructed by our insurers in relation to claims made against the authority and for which insurance cover is provided. Primarily personal injury claims. 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>

General Enquiries of Management

Question	Management response
9. 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?	The Council have not received any reports from service providers on fraud, non-compliance with laws and regulations or uncorrected misstatements which could affect the financial statements.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Financial advice was obtained during 2020/21 from: Arlingclose Ltd – treasury management advisors

Fraud

Issue

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 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

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, Revenues 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 Managers complete and sign assurance statements on an annual basis confirming that the governance framework has been operating effectively 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. Reports are also presented to the Audit Committee • The Council has an up to date Fraud Response Plan • The Council has an up to date Whistleblowing Policy

Fraud risk assessment

Question	Management response
<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, this has recently been updated. The Council has identified that Social Care is a key area 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 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Council receives allegations of fraud through various reporting channels. Some of these allegations relate to the Revenues service. Staff are encouraged to refer matters of fraud through these channels.</p> <p>Within these allegations or separately through the whistleblowing channels Telford & Wrekin Council can very occasionally receive allegations relating to members of staff committing acts of fraud. This can be in their capacity as an external customer or in the role as an employee. Since April 2020 two such matters are under investigation. The financial sum of these frauds is less than £5K.</p> <p>Where appropriate any allegations of fraud are investigated and feedback is provided to the relevant service area. The Council will also send out internal communications in certain circumstances to remind employees of the need to be vigilant to the risks of fraud.</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>The risk of fraud at Telford and Wrekin Council is in line with the recognised fraud risks nationally. Revenues is the area that is most consistently affected by fraud. This is understandable as it is an area with a high number of transactions. Fraud can occur within liability issues, NNDR, CTR and SPD.</p> <p>The Government's COVID Business support grant scheme has opened up a new fraud opportunity. This is understandable because councils have been expected to pay out large sums of money in a short period of time with comparatively little verification/national guidance in place. However the Investigation Team have worked closely with Revenues to minimise and/or investigate fraudulent claims.</p> <p>Direct Payments within Adult Social Care is an emerging area of fraud and cases of suspected fraud are identified within this area and referred to the Investigation Team.</p> <p>There is a national concern about the growing of the risk of fraud within the procurement cycle. However locally this has not been an issue. In addition, the growing threat that organised crime poses to the Council, again recognised as a national issue, needs monitoring.</p> <p>There are no locations within Telford & Wrekin where fraud is more likely to occur.</p>

Fraud risk assessment

Question	Management response
<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 to the Investigation Team via a variety of channels. <ul style="list-style-type: none"> • New online reporting mechanism • Documented Fraud Response Plan <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 do you assess the overall control environment for Telford and Wrekin Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective 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 committee, on request, to provide additional information where requested. Audit reports to the Senior Management Team regularly on the status of limited and poor assurance audit reports Each Executive Director/Director receives a copy of final audit reports in their area and also receive a summary of all audits quarterly. 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 to date</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?</p> <p>Have any significant issues been reported?</p>	<ul style="list-style-type: none"> • 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. • Money Laundering Policy • Codes of Conduct <p>The Whistleblowing Policy encourages staff to report any concerns regarding fraud and irregularity through a variety of channels. An additional reporting channel is now available via the Councils website.</p> <p>The Council's Core Behaviours encourage staff to report any fraudulent/otherwise unacceptable behaviour.</p> <p>The authority receives allegations, most notably relating to Revenues related fraud by the general public. Referrals have also been received relating to Adult Social Care.</p> <p>There have been some additional fraud allegations due to COVID primarily around business grants. The Investigation Team have worked closely with Revenues to look at these instances.</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>As previously mentioned the Revenues Service is the area with the highest number of cases of fraud due to the large volume of transactions and high values. The Investigation Team undertake considerable work in this area. There are strong reporting channels where staff and members of the public report their concerns.</p> <p>The Revenues Service undertake a number of matching exercises to identify risks in this area and they also take part in the National Fraud Initiative. Regular reviews of discounts and exceptions is another tool used to help reduce the risk of fraud.</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>The Investigation Team continue to promote the risk of fraud across the Council. An example is the recent prosecution of a former member of staff for defrauding the Council's sick pay scheme.</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.</p> <p>Related party transactions have to be disclosed by elected Members and senior officers. All members and officers have to disclose relevant interests in the register of interests.</p> <p>Payments made to companies where a Member has an interest are reported to Audit Committee and included in final accounts.</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>Since April 2020 there have been 6 Whistleblowing referrals, however none of these matters relate to fraud. These matters have been passed to the relevant person/service to undertake an investigation.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No specific Bribery Act referrals have been made since April 2020.</p>

Law and regulations

Issue

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>Annually the Council produces an Annual Governance Statement giving information on governance assurance activity and overall audit opinion.</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>The work of Internal Audit provides assurance to management in this area and grades individual recommendations where there is a legal/regulatory compliance issue.</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>As stated previously the Audit Committee receives reports from both Internal and External Audit which include assurance opinions and where concerns have been highlighted.</p>

Impact of laws and regulations

Question	Management response
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>There have been no instances of non-compliance or suspected noncompliance with an ongoing impact on the 20/21 financial statements,</p> <p>The position will be reviewed again as part of the annual accounts process.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>It is considered that anything in excess of £50,000 would be reportable. Claims received by the Council 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, the excess is £20,000. Claims in relation to CSE cases have an excess of £100,000.</p> <p>The Council are currently going through an insurance tender so the above may change post 1/4/21.</p>
<p>5. What arrangements does Telford and Wrekin Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>Legal and Insurance work together to identify and evaluate any potential litigation or claims against the Council.</p> <p>The Councils insurance claims handlers also identify and evaluate if there is any liability in respect to claims made.</p> <p>Potential liabilities are included in the Statement of Accounts.</p>

Impact of laws and regulations

Question	Management response
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	none

Related Parties

Matters in relation to Related Parties

Telford and Wrekin Council are required to 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.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties disclosed in Telford and Wrekin Council's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Telford and Wrekin Council whether Telford and Wrekin Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>Related party information will be collected as part of the year end processes and is not available yet for 2020/21.</p>
<p>2. What controls does Telford and Wrekin Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Register of Interests for Members and Officers</p> <p>Completion of annual declaration by Senior Officers and Members requested as part of Statement of Accounts process.</p> <p>Governance Statement.</p>

Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	See responses to Q2 above. Also, the normal approval process will apply; with Chief Executive, Executive Director and Director approval sought in line with the financial regulations.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	There are no significant transactions outside the normal course of business, therefore not applicable.

Accounting estimates

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

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

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	<p>Significant Estimates : PPE, Pension Fund valuations; expected credit losses; fair value of Financial Instruments; Single Status</p> <p>No changes in the methodology anticipated; but estimates may have a higher degree of uncertainty due to the ongoing impact of Covid. Management will consider advice from professional advisors (Mercers, Surveyors, Treasury Advisors).</p>
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	Disclosure notes are included in the accounts in line with the Code of Practice.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	In conjunction with specialists e.g. Senior Valuation Officers in the Council, Mercers Pension Actuaries, Arlingclose Treasury Advisors. Also consideration of the economic climate and with reference to appropriate Codes, such as CIPFA guidance and the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors.
4. How do management review the outcomes of previous accounting estimates?	Ongoing financial monitoring and review of annual reports and discussion/updates from Specialists

Accounting Estimates - General Enquiries of Management

Question	Management response
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	Valuation date for Other Land & Buildings and Investment properties now 1 December therefore the potential for material misstatement to 31 March is significantly reduced.
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Professional expertise is used to provide estimates where Finance staff have insufficient expertise and knowledge: Land & Buildings/Investment Property Valuations – Internal Professional Valuers; Pension Liability – Mercers Actuaries Treasury – Arlingclose Treasury Advisors; PWLB year end valuations
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Professional advisors engaged; engagement letters/IAS 19 Accounting disclosures request; Code of Practice.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	As above, reviewed annually in line with requirements.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>Disclosure notes in the Statement of Accounts; key areas covered as part of annual SOA Member training session provided to Audit Committee members.</p>
<p>10. 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)?</p>	<p>No</p>
<p>11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?</p>	<p>Yes</p>
<p>12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>The accounting policies and notes included in the Statement of Accounts provide information. External Audit provide assurance.</p>

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?
Land and buildings valuations	<p>The majority of valuations 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. Asset to be revalued are valued at 01.12.2020.</p> <p>An impairment and valuation review is carried out as a desk value for properties not valued in year.</p> <p>Assets are depreciated on a straight line basis.</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 is being reduced from 5 years to 3 years and valuation date has moved from 1 st April to 1 st December)

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?
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 01.12.2020	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.	No (valuation date has moved from 1 st April to 1 st December)
Depreciation	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.	Useful lives are confirmed through Estates & Investments where appropriate	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

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?
Impairment of bad debt – Collection fund debtors	Age debt / recovery stage analysis	Review of Collection rates	No	Although Collection Fund debtors are outside of the scope of IFRS9, the method used to establish debtors is broadly in line with that of Expected Credit Losses.	No
Fair Value of Loans	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
Single Status Provision – Schools and non-Schools	The amount in the accounts was originally based on 4% of the relevant pay bill, which was the best and only information available. A review was undertaken in 2019/20 and the total provision was reduced by £3m, following consideration of the current context.	Payroll data historically used	Internal service area – Single Status	The review undertaken in 19/20 considered the nature of service delivery (grounds, refuse and cleansing all provided by external contractors), and the restructuring programme which has taken place over the past 10+ years which reduces the potential future risk.	No

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?
Valuation of defined benefit net pension fund liabilities	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.



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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 Council 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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Key matters

Factors

Council developments

The Council continues to operate in a challenging and uncertain environment in both financial and operational terms. Despite this, the Council is forecasting a strong outturn position, with approximately £1.9m expected to remain in the Council's revenue contingency and has succeeded in identifying savings plans and managing to set a balanced budget for the 2021/22 financial year, with a balance of around £20m available in reserves to support the medium term financial position. However, with a longer term financial settlement with central government once again postponed as a result of the ongoing economic disruption caused by the pandemic, there is an overall lack of certainty around the medium term and beyond, which could present significant challenges for the Council in relation to consideration of future spending activities and financial plans.

Financial Reporting and Audit

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. In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. *ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Accounting matters

The government has provided a range of financial support packages throughout the COVID-19 pandemic. These include additional funding to support the cost of services or offset other income losses and also grant packages to be paid out to support local businesses. There is nothing new about the accounting treatment for grants, but the Council needs to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) in 2020/21. There are three main considerations:

- 1) Where the funding is to be transferred to other parties, is the Council acting as the principal or as the agent?
- 2) Are there grant conditions outstanding?
- 3) Is the grant a specific or non-specific grant?

We have discussed this with the finance team who are considering the above factors in their rationale and justification for the accounting treatment to be proposed.

In the prior year the Council disclosed possible material uncertainties regarding the expert's valuations of land & buildings and investment properties (including those consolidated through the group accounts) due to the Covid 19 pandemic. Uncertainty has continued during 2020/21. We will monitor the position for the 31 March 2021 valuations.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control – refer to page 7
- The Council's financial statements reported the potential material uncertainties in regards to the valuation of land & buildings and investment properties in 2019/20 due to the Covid 19 pandemic and significant uncertainty has continued during 2020/21. We have therefore identified a significant risk in regards to the valuation of properties and propose to engage our own auditor's expert to assist us in obtaining assurances that the valuations disclosed within the Council's financial statements are reasonable – refer to page 7.

Key matters

Factors

Auditing developments

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach

The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

More details are provided on pages 16-17 of this report.

Impact of Covid 19 pandemic

The COVID 19 global pandemic is impacting how people work. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to August 2021 and the date for audited financials statements to 30 September 2021.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Borough 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 agreed 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 Borough of Telford & Wrekin Council. We draw your attention to both of these documents.

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 Council 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 Council 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 Council is fulfilling these responsibilities.

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

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of NuPlace Ltd.

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 – Group (Consolidation process) and Council
- Valuation of land and buildings (PPE and Investment Property) – Group and in both components
- Valuation of net pension fund liability – Council only
- Revenue and expenditure recognition (rebutted);

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 £6.7m) for the group and £7.5m (PY £6.6mm) for the Council, which equates to approximately 1.8% 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 £0.375m (PY £0.33m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Financial Sustainability
- Governance in relation to significant projects

Audit logistics

Our interim work took place in the early part of 2021 and our final accounts work will take place in June and July. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £144,182 (PY: £116,360) for the Council and Group, subject to the Council delivering a good set of financial statements and working papers (see pages 18-20).

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

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?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Borough of Telford & Wrekin Council	Yes	Audit of the financial information of the component using component materiality	<ul style="list-style-type: none"> Outlined on page 4 	Full scope audit performed by Grant Thornton UK LLP
nuPlace Ltd.	No	Specified audit procedures relating to significant risks of material misstatement of the group financial statements	<ul style="list-style-type: none"> Valuation of investment property assets 	<p>Specific scope procedures to be performed by Dyke Yaxley LLP.</p> <p>The nature, time and extent of our involvement in the work of Dyke Yaxley began with a discussion on risks, guidance on designing procedures, participation in meetings, and will be followed by the review of relevant aspects of their audit documentation and meeting with appropriate members of management.</p>

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Possible 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

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 (rebutted)	Group and Council	<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>As external auditors in the public sector, we are also required to give regard to Practise Note 10, which interprets the ISA in a public sector context and directs us to consider whether the assumption also applies to expenditure.</p>	<p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue and expenditure recognition can be rebutted, because:</p> <ul style="list-style-type: none"> - there is little incentive to manipulate revenue and expenditure recognition - opportunities to manipulate revenue and expenditure recognition are very limited; and - the culture and ethical frameworks of local authorities, including Borough of 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 Borough of Telford & Wrekin Council. Additional revenue recognised via the Group accounts is not material and therefore does not present a further risk of material misstatement.</p>
Management override of controls	Group and Council	<p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</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 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 high risk 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 by management and consider their reasonableness with regard to corroborative evidence; and - Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. - Perform a review of consolidating journals for production of group accounts and consider whether the component auditor's work on property valuations is indicative of management bias or override of controls.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Group and Council	<p>The Council revalues its land and buildings on a rolling five-yearly basis, and investment properties annually. In addition to this, its subsidiary, NuPlace, holds a highly material balance of investment property which is also revalued annually.</p> <p>This valuation process represents a significant estimate by management in the financial statements due to the size of the numbers involved (Council PP&E Land & Buildings were valued at approximately £316m in the prior period, £157m for Investment property across the group of which £102m related to the Council) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling program is used.</p> <p>We have therefore identified valuation of land and buildings and investment properties, particularly revaluations and impairments, 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 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; - Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met; - Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; - Engage our own valuer to assess the instructions to the Council's valuer, the Council valuer's report and the methodology and assumptions that underpin the valuation; - Test revaluations made during the year to see if they had been input correctly into the Council's Balance Sheet; - Agree a series of similar procedures to be carried out on the component, NuPlace's, Balance Sheet with their auditor and review and conclude on the work performed.
Valuation of the pension fund net liability	Council only	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund liability is considered a significant estimate due to the size of the numbers involved (£333.3m as at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We 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 misstatements.</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; and - 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.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified two audit adjustments in our 2019/20 audit in relation to the Council's estimation process for valuation of land and buildings and valuation of the net pension liability.

Introduction

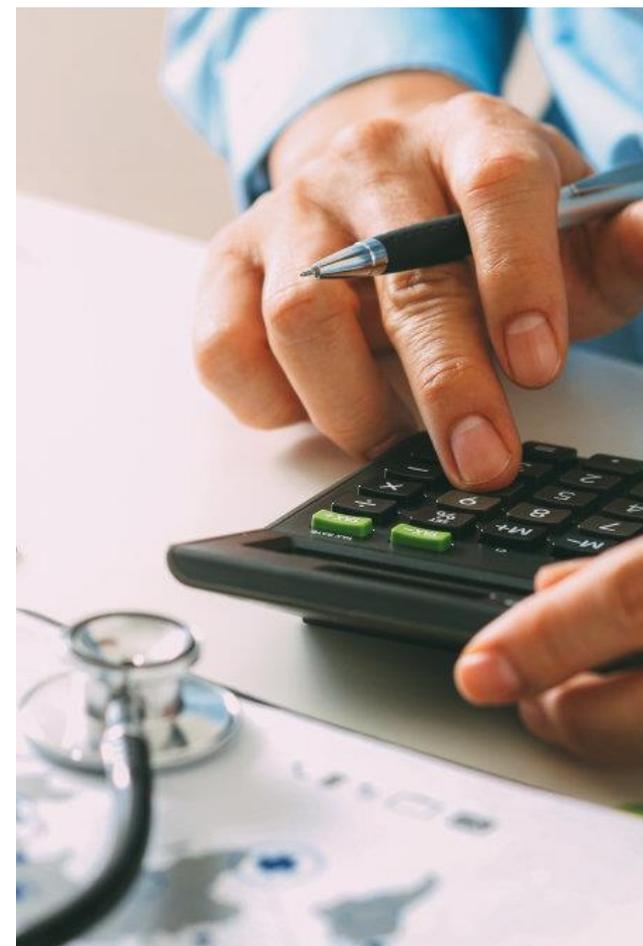
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Page 46
- Valuations of land and buildings, and investment properties
 - Depreciation
 - Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
 - Credit loss and impairment allowances
 - Valuation of defined benefit net pension fund liabilities
 - Fair value estimates

The Council's Information systems

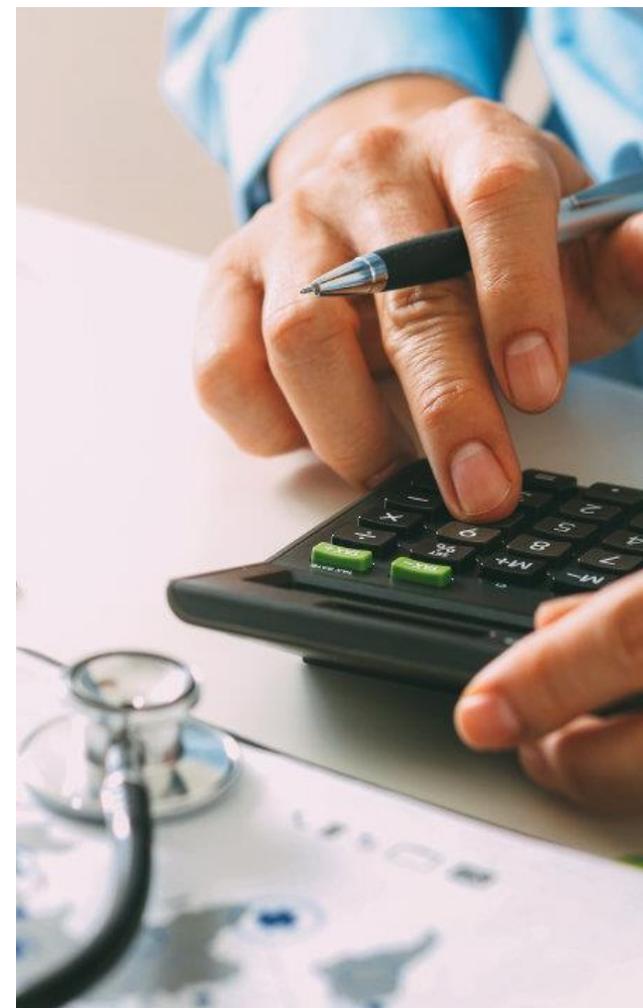
In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pension liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.





Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

How management understands the degree of estimation uncertainty related to each accounting estimate; and

How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of management via our Informing the Risk Assessment report which we use as a vehicle for updating our understanding of the Council's controls framework. We will present this as a separate report and ask that the Committee review and approve the report to ensure we have a consistent understanding of the Council's arrangements.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters and risks

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in Expenditure Recognition	<p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity is required to meet financial targets.</p> <p>Having considered the risk factors relevant to the Borough of Telford & Wrekin Council and the relevant expenditure streams, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 6 relating to revenue recognition apply.</p> <p>We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests below and our testing in relation to the significant risk of Management Override of Controls as set out on page 6.</p>	<p>We will:</p> <ul style="list-style-type: none"> Perform testing over post year end transactions to assess completeness of expenditure recognition. Test a sample of operating expenses to gain assurance in respect of the accuracy and occurrence of expenditure recorded during the financial year.

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 our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set 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 legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - 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 regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 15). We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiary. If such a situation arises, we will consider our audit response for the group.

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the Group's financial statements, which resulted in one recommendation being reported in our 2019/20 Audit Findings Report. We have followed up on the implementation of our recommendation, as detailed below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Related Parties: it was noted that not all declarations of interest were received in 2019/20. We therefore recommended that the Council take steps to ensure that all responses are received in time for preparation of the 2020/21 financial statements.	From initial discussions, management report that they anticipate obtaining a full set of declarations of interest in time for the 2020/21 audit. We will report back on progress within our Audit Findings Report.

Materiality

The concept of materiality

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 £6.7m) for the group and £7.5m (PY £6.6m) for the Council, which equates to approximately 1.8% of your prior period gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for disclosures relating to Senior Officer Remuneration, owing to heightened sensitivity and public scrutiny in this area.

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

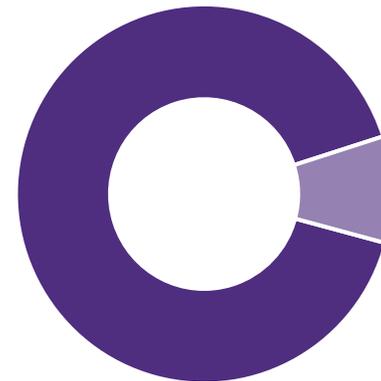
Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 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 £0.375m (PY £0.33m).

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.

Prior year gross operating costs

£417.3m group

£417.2m Council



■ Prior year gross operating costs

Materiality

£7.6m

group financial statements materiality (PY: £6.7m)

£7.5m

Council financial statements materiality (PY: £6.6m)

£0.375m

Misstatements reported to the Audit Committee (PY: £0.33m)

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out below.

Risks of significant weakness

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

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Financial Sustainability

Whilst the Council is forecasting a robust financial position at the year end and has historically demonstrated a capacity for sound financial management, in common with the sector as a whole significant uncertainty remains around future financial settlements and viability of savings plans as the local and national economies recalibrate to the 'new normal' following the pandemic.

We will therefore challenge the Council's forecasting process with a particular focus on the underlying support for assumptions around future funding streams and savings plans.



Governance and decision making

We note that the Council continues to demonstrate an entrepreneurial and positive outlook despite the economic uncertainty, looking to engage in significant investments in its subsidiary and other activities with a more commercial focus. The current heightened level of uncertainty would indicate opportunities and also greater level of risk attached to these plans and highlights the importance of strong governance and good information within the decision making process.

We will therefore review the arrangements in place for developing the business cases underpinning these plans as well as ensuring that decisions made have been subject to appropriate levels of scrutiny within the Council's internal assurance processes.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

Planning and risk assessment

Interim audit
Jan – March 2021

Audit Committee
May 2021

Audit Plan

Year end audit
June – July 2021

Audit Committee
TBC (est September)

Audit Findings Report/Draft Auditor's Annual Report and Audit Opinion

Audit Committee
TBC (est November)

Auditor's Annual Report

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Grant Patterson, Key Audit Partner

Grant leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained with a commitment to add value to the CCGs.



David Rowley, Audit Manager

As the engagement manager, David is responsible for overseeing delivery of our service and managing the audit process in respect of the Council. He will be in hand to answer any queries, whilst ensuring an efficient audit process.

Will Howard, Audit Incharge

Will will work with relevant officers and our operational team to ensure the smooth planning and delivery of the audits. He will oversee the day to day running of the audit and discuss any issues with you during the audit process as well as any questions you may have throughout the year.

Audited body responsibilities

Where audited bodies 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 audits. 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 agreed timetable 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 for testing
- 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.

Audit fees

In 2018, PSAA awarded a contract of audit for Borough of Telford & Wrekin Council to begin with effect from 2018/19. The fee agreed in the contract was £90,182. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 15, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £144,182 (a 60% increase against the scale fee). This is in line with increases we are proposing at all our local audits.

Additionally, 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, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We will engage an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf. The Director of Finance has been made aware of this increase, which remains subject to approval by Public Sector Audit Appointments (PSAA) and which may be offset, to some extent, by additional government funding, although no allocation has been received by the Council as yet.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed Fee 2020/21
Borough of Telford & Wrekin Council audit	£99,182	£116,360	£144,182
Total audit fees (excluding VAT)	£99,182	£116,360	£144,182

Assumptions

In setting the above fees, we have assumed that the Council 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 \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA		£90,182
<i>Ongoing increases to scale fee first identified in 2019/20</i>		
Raising the bar/regulatory factors	£4,000	
Enhanced audit procedures for Property, Plant and Equipment	£3,500	
Enhanced audit procedures for Pensions	£3,500	
Continuing 2019/20 Fee Variations		£11,000
Final Audit Fee 2019/20 (net of 15% non recurring pandemic disruption surcharge - £15,178)		£101,182
<i>New issues for 2020/21</i>		
Additional work on Value for Money (VfM) under new NAO Code	£26,000	
Increased audit requirements of revised ISAs 540/240/700 (including appointment of auditor's valuation expert – see page 8)	£17,000	
<i>Proposed increase to agreed 2019/20 fee</i>		£43,000
Total audit fees (excluding VAT)		£144,182

Independence and 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 (Revised 2019) 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and component audit firms providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

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 Council's policy on the allotment of non-audit work to your auditors. 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.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit subsidy claim	10,500	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 £10,500 in comparison to the total fee for the audit of £144,182 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 Teachers' Pension Scheme annual return	4,500	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 £4,500 in comparison to the total fee for the audit of £144,182 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.
TOTAL	15,000		

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	Effective for audits of financial statements for periods beginning on or after 15 December 2021
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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