Borough of Telford & Wrekin Council Audit Plan

Year ending 31 March 2022

May 2022

Contents

Your key Grant Thornton team members are:

Grant Patterson
Key Audit Partner
T 0121 232 5296
E grant.b.patterson@uk.gt.com

David Rowley
Audit Manager
T 0121 232 5225
E david.m.rowley@uk.gt.com

Lya Hall
Audit Assistant Manager
T 0121 232 8788
E lya.hall@uk.gt.com

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.

Key matters

Factors

Recovery from Covid 19 pandemic

The Council has received central funding and has been administering support grants in 2021/22. The majority of funding is not ringfenced and can be recognised as income when received. Additionally, the Council has responded well to remote working and has been agile in delivering services, diverting office staff to frontline services where required. Internal controls have not changed significantly in relation to the business processes that feed into the financial statements. Management continue to factor in Covid income and expenditure into budgets and cash flow forecasts, and the Council make applications for additional funding when available and relevant.

It continues to have a grip on costs arising, as well as income received, that is both directly and indirectly related to Covid, which will be key in any determining any future budget strategies and service delivery decisions, as society learns to live with the ongoing impacts of the pandemic. Additional costs of Covid as well as associated loss of income is reported regularly.

Council developments and financial position

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. Against this background the Council is continuing to invest in schemes to help support residents in respect of rising fuel costs and the overall cost of living.

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 Land Deal continues to operate effectively. However, 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.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector.
- 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.

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 we consider whether there are sufficient arrangements in place at the Council (and group) for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

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 Limited.

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 – Council only
- Valuation of other land and buildings – Council only
- Valuation of investment properties – Council and Group
- 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 £7.7m (PY £7.6m) for the group and £7.6m (PY £7.5m) for the Council, which equates to 1.9% of your forecast 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 £0.385m (PY £0.380m) for the group and £0.380m (PY: £0.375m) for the Council.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money is still in progress. We will bring our analysis of risks to the July Audit Committee.

Audit logistics

Our planning work has taken place during February to April and our final visit will take place over summer, commencing towards the end of June and early July. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £146,932 (PY: £138,182) for the Council, subject to the Council delivering a good set of financial statements and working papers.

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	• As set out on pages 6 to 9	Full scope audit performed by Grant Thornton UK LLP
NuPlace Limited	No	Specified audit procedures relating to risks of material misstatement of the group financial statements	• Valuation of investment property assets	Specific scope procedures on Investment Property assets to be performed by Dyke Yaxley LLP. The nature, time and extent of our involvement in the work of Dyke Yaxley LLP began with a discussion on risks, guidance on designing procedures, participation in meetings and will be followed by the review of relevant aspects of the Dyke Yaxley LLP's audit documentation and meeting with appropriate members of management.

Key changes within the group:

No significant changes in 2021/22.

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 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	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of Telford & Wrekin Council, we have determined that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited, and • The culture and ethical frameworks of public sector bodies, including Telford & Wrekin Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for the Council. Additional revenue recognised via the Group accounts is not material and therefore does not present a further risk of material misstatement.	Notwithstanding that we have rebutted this risk, we will still undertake a significant level of work on the Council and Group's revenue streams, as they are material. We will: <u>Accounting policies and systems</u> • evaluate the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code • update our understanding of the Council's business processes associated with accounting for income <u>Fees, charges and other service income</u> • Agree, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. <u>Taxation and non-specific grant income</u> • Income for national non-domestic rates and council tax is predicable and therefore we will conduct substantive analytical procedures • For other grants we will sample test items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. We will also design tests to address the risk that income has been understated, by not being recognised in the current financial year.
Management over-ride of controls	Group and Council	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. 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.	We will: • 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; • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions; and • 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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of other land and buildings	Council Only	The Council currently revalues its land and buildings on a rolling five-yearly basis. It is transitioning the rolling programme to ensure revaluations are completed every three years, with the transition being completed by 31 March 2022. This valuation process represents a significant estimate by management in the financial statements due to the size of the numbers involved - in 2020/21 the net book value of Other Land & Buildings was approximately £339m and Surplus Assets of £5.7m – and the sensitivity of this estimate to changes in key assumptions. Management will need to ensure that 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. Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets. For assets valued at existing use value and fair value, the key inputs into the valuation are potentially market data and yields used in the valuation, including estimated future income from the asset. We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will; • 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.
Valuation of investment property	Council and Group	The Council revalues its investment properties annually. In addition to this, the Council's subsidiary, NuPlace Limited, holds a highly material balance of investment property which is consolidated and also revalued annually. This valuation process represents a significant estimate by management in the financial statements due to the size of the numbers involved (in 2020/21 Investment Property across the group was valued at £179m, of which £108m related to the Council) and the sensitivity of this estimate to changes in key assumptions. For assets valued at fair value, the key inputs into the valuation are potentially market data and yields used in the valuation, including estimated future income from the asset. We therefore have identified that the accuracy of the key inputs driving the valuation of investment properties as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will; • Undertake the tests above and, in addition, • Test revaluations made during the year to see if they had been input correctly into the Council's and Group's Balance Sheet; and • Through issuing Group Instructions agree a series of similar procedures to be carried out on NuPlace's, Balance Sheet (as the component) with their auditor and review and conclude on the work performed.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council Only	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. The net pension fund liability is considered a significant estimate due to the size of the numbers involved (£364.9m as at 31 March 2021) and the sensitivity of the estimate to changes in key assumptions. 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.	We will: • 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.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Infrastructure assets	Council Only	The CIPFA Code of Practice on Local Authority Accounting prescribes the accounting treatment and disclosure requirements for infrastructure assets. The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. The Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. These requirements of the Code derived from IAS 16 Property, Plant and Equipment. The Council has material infrastructure assets and there could therefore be a potential risk of material misstatement related to this balance. CIPFA has also set up a Task & Finish Group to review the issue and we will take its findings into consideration once published.	In order to be able to conclude whether there is a risk of material misstatement our current proposed response (dependent upon outcomes of CIPFA's Task & Finish Group) is to: • assess risks of material misstatement related to infrastructure assets • update our understanding of the process to explain the Council's current approach to capitalisation, derecognition and depreciation of infrastructure assets and how it complies with the Council's fixed asset register to confirm that the processes are being applied in practice • for a sample of assets or additions to infrastructure, we will enquire as to the basis of the asset life and conclude on whether this is reasonable and correctly factored into depreciation calculations
Fraud in Expenditure Recognition	Council Only	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk oaf material misstatements due to fraud related to revenue recognition. Having considered the nature of the expenditure streams of Telford & Wrekin Council, and on the same basis as that set out earlier for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.	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. Notwithstanding that we have rebutted this risk, we will still undertake a significant level of work on the Council's expenditure streams, as they are material. We will: • update our understanding of the Council's business processes associated with accounting for expenditure • 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. We will also design tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year. Further detail in this respect is set out on page 12.
Completeness, existence and accuracy of cash and cash equivalents	Council Only	The receipt and payment of cash represents a significant class of transactions occurring throughout the year, culminating in the year end balance for cash and cash equivalents reported on the statement of financial position. Due to the significance of cash transactions to the Council, we identified the completeness, existence and accuracy of cash and cash equivalents as a risk requiring special audit consideration.	We will: • agree all period end bank balances to the general ledger and cash book; • agree cash and cash equivalents to the the bank reconciliation; • agree all material reconciling items to sufficient and appropriate corroborative audit evidence; • write to the bank and obtain a bank balance confirmation; • agree the aggregate cash balance to the relevant financial statement disclosures.

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

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 three audit adjustments in our 2020/21 audit in relation to the Council's estimation process for valuation of land and buildings & 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 2022.

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

- Valuations of land and buildings, and investment properties
- Depreciation
- Year end provisions and accruals, including single status provision and minimum revenue provision
- 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 pensions 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 uncertainly 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

Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and 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 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22financial 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.

IFRS 16 (Leases)

IFRS 16 removes the previous lease classifications of operating and finance leases for lessees and it requires that a right-of-use asset be recognised for all leases (there are exemptions for short-term and low value leases) with a corresponding lease liability representing the lessee's obligation to make lease payments for the asset.

Following its emergency consultation in March 2022 on exploratory proposals for changing the Code of Practice on Local Authority Accounting in the United Kingdom, CIPFA LASAAC has confirmed its decision to defer the implementation of IFRS 16 until 1 April 2024 (and therefore in the 2024/25 Code). However, both the 2022/23 and the 2023/24 Codes will allow for early adoption as of 1 April 2022 or 2023. Our current understanding is that the Council is not seeking to adopt the revised standard early.

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of relevant ITGCs. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

IT system	Audit area	Planned level IT audit assessment
Agresso	Financial reporting	• Streamlined ITGC design assessment
Resource Link	Payroll	• Streamlined ITGC design assessment

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 £7.7m (PY £7.6m) for the group and £7.6m (PY £7.5m) for the Council, which equates to 1.9% of your forecast gross expenditure for the year.

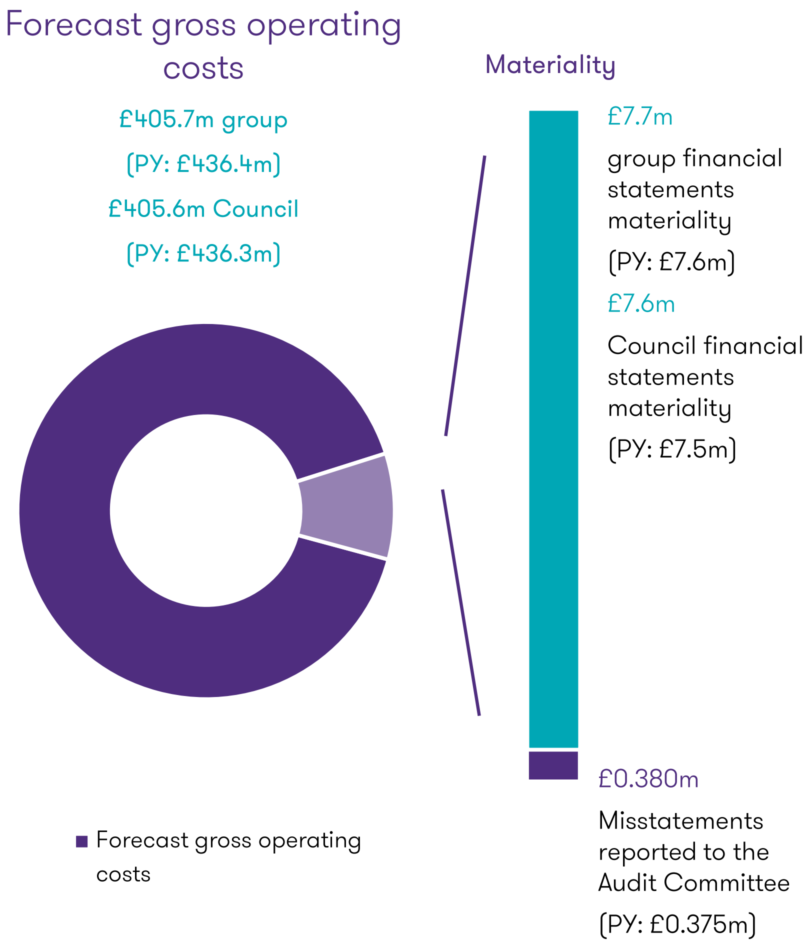
We design our procedures to detect errors in specific accounts at a lower level of precision. In particular, errors noted in disclosures relating to senior officers' remuneration and related party transactions will be considered on a case by case basis.

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 £0.380m (PY £0.375m).

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.



Audit logistics and team

Planning and risk assessment

Interim audit
Feb - Mar 2022

Audit Committee
May 2022
Accounts Audit Plan

Audit Committee
TBC 2022
Auditor's Annual Report Plan

Year end audit
July-Sep 2022

Audit Committee
TBC 2022
Audit Findings Report

Audit Committee
TBC 2022
Auditor's Annual Report

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 Council.

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.

Lya Hall, Audit In-charge

Lya will work with relevant officers and our operational team to ensure the smooth planning and delivery of the audits. She 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 items 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 2017, 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 2021/22 audit.

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 detailed on pages 10-12 in relation to the updated *ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.*

The 2020/21 Code introduced 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. Our 2020/21 audit plan set out the level of additional fees required to deliver this work; this expanded approach to the VFM assessment continues for 2021/22.

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 2021/22 financial statements. For 2021/22 we have increased audit fees by £10,702 to cover additional requirements of Auditing Standards. Fees for non-audit services have increased to reflect the costs of delivery.

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 have engaged an audit expert to improve the level of assurance we require for {add details e.g. property valuations estimates}, which has been included in our proposed audit fee. Our proposed work and fee for 2021/22, is set out below:

	Actual Fee 2019/20	Actual Fee 2020/21	Proposed fee 2021/22
Borough of Telford & Wrekin Council Audit	£116,360	£138,182 (see page 17)	£146,932
Non-audit services (page 22)	£14,300	£15,000	£20,000 (TBC) (see page 18)
Total audit fees (excluding VAT)	**£130,660**	**£153,182**	**£166,932**

Assumptions

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

- prepare a good quality set of financial statements , 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

		2020/21		2021/22
Scale fee published by PSAA		£90,182		£96,182
Raising the bar/regulatory factors	£4,000		£5,000	
Enhanced audit procedures for Property, Plant and Equipment	£3,500		£4,375	
Work of experts – auditor's valuation expert	£3,500**		£3,500	
Enhanced audit procedures for Pensions	£3,500		£4,375	
Additional work on Value for Money (VfM) under new NAO Code	£20,000*		£20,000	
Increased audit requirements of revised ISAs 540	£6,000**		£6,000	
Increased audit requirements of Journals/Grants	£7,500**		£7,000	
Infrastructure	-		£500***	
Proposed Variation to Scale Fee		**£48,000**		**£50,750**
Total audit fees (excluding VAT)		**£138,182**		**£146,932**

Assumptions/Notes

- * in our 2020/21 Audit Plan we indicated a fee of £26,000 for the new VFM work subject to discussions with PSAA. It is now proposed that £20,000 be the baseline fee subject to local risk variations.
- ** in our 2020/21 Audit Plan we had included the cost of our auditor's expert and increased work on journals and grants within the increased audit requirements line. For transparency we have separately shown these this year.
- *** these costs are anticipated in respect of responding to the CIPFA Task & Finish Group conclusions. The actual costs will be higher but we have noted the increase in scale fee by PSAA when considering our fee for this year.
- currently our fee anticipates being able to deliver the audit either on site on in a hybrid manner involving some on-site work. If we have to deliver the audit fully remotely our experience is that this takes longer. We would be proposing a further fee variation of £7,500 in these circumstances.

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 providing services to the Council.

Other services

The following other service provided by Grant Thornton was identified, as detailed in the table.

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 Benefits	12,500*	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 £22,500 in comparison to the total fee for the audit of £146,932 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 Return	7,500*	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 of £7,500 in comparison to the total fee for the audit of £146,932 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.
Non-audit related			
None	N/A	N/A	N/A

* Note that these fees are those anticipated to be charged in respect of 2021-22:

- For Certification of Teachers Pensions we have moved to a national fixed fee tariff.
- For Housing Benefits we have analysed our margins regionally and nationally on this work alongside feedback from regulators on the quality of work. As part of the contract variation in 2020/21 we proposed a fee of £10,500. We are proposing an increase to £12,500 subject to discussions with management. This will still represent a discount on the potential fee required taking into account the factors mentioned.

Appendix 1: Progress against prior year audit recommendations

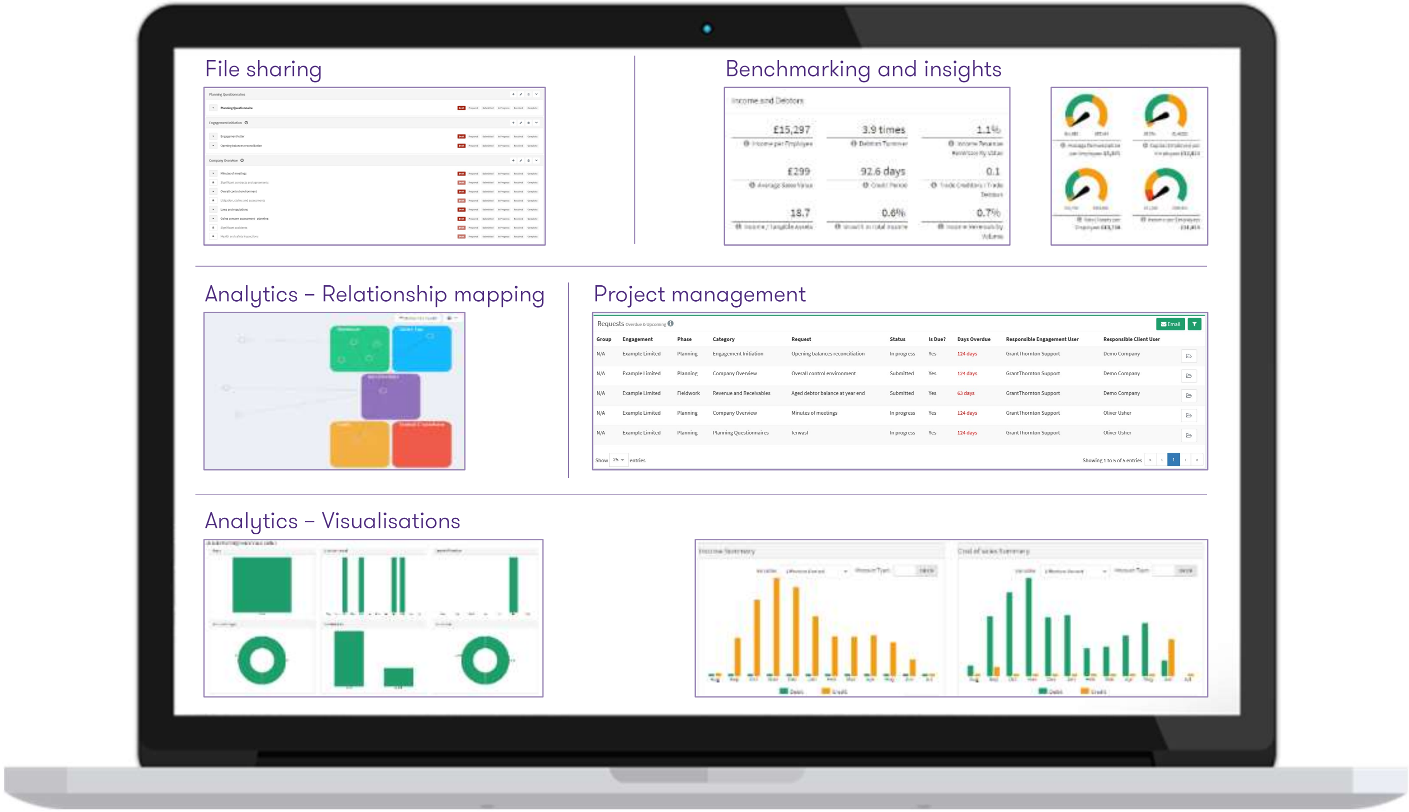
We identified the following issues in our 2020/21 audit of the group's financial statements, which resulted in 3 recommendations being reported in our 2020/21 Audit Findings Report. We have followed up on the implementation of our recommendations, as detailed below:

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	From our audit review of controls and procedures in place around accounting for fixed assets, we noted that management does not have a procedure in place for a final review of the Fixed Asset Register to confirm completeness and accuracy prior to reporting. We also noted an audit adjustment in relation to an incorrectly posted valuation adjustment and one in relation to an asset which should not have been included on the balance sheet. We recommend that management build in an additional layer of review to ensure completeness and accuracy of the Fixed Asset Register prior to production of the final accounts.	TBC as part of Final Accounts Visit
TBC	We identified a small number of assets which had not been depreciated appropriately in the fourth quarter of the 2020/21 financial year. This resulted in a non-trivial (but not material) audit adjustment. We recommend that management review its procedures around monitoring Useful Economic Lives of its asset base.	TBC as part of Final Accounts Visit
TBC	On investigation of Minimum Revenue Provision (MRP) we concluded that the Council was not fully complying with the current guidance. This led to an under-provision of MRP against investment properties. Whilst this has not yet led to a cumulative or in year material misstatement, there is a risk that, over time, the cumulative impact of this policy decision becomes material, leaving the Council exposed to market and refinancing risks in respect of its portfolio. We believe the Council should: • Reconfigure its MRP policy to ensure that any identified under provision of MRP (per statutory guidance) is profiled into annuity charges over the remainder of the lifetime of the assets in question; • Ensure that realistic and achievable plans are in place to repay any borrowing secured against investment assets as arrangements become due for renewal. • Build requirements to provide for additional MRP (as described above) into future savings plans and budgets As DLUHC is consulting on revised regulations which would come into affect from 1 April 2023 we acknowledged that, given the sums involved would still be cumulatively immaterial at that time, this would not be an unreasonable timeline for the Council to be working towards.	TBC as part of Final Accounts Visit

Appendix 2: Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Appendix 2: Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

Project management

- Facilitates oversight of requests
- Access to a live request list at all times

Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Grant Thornton

grantthornton.co.uk