# Telford and Wrekin Council

## Report to the Audit Committee- DRAFT

**Preliminary Audit Strategy for the year ending 31 March 2024**

May 2024

# Introduction

**To the Audit Committee of Telford and Wrekin Council**

We are pleased to have the opportunity to meet with you on 29th May 2024 to discuss our audit of the consolidated financial statements of Telford and Wrekin Council for the year ending 31st March 2024.

We have been appointed as your auditors by Public Sector Audit Appointments Ltd. The audit is governed by the provisions of the Local Audit and Accountability Act 2014 and in compliance with the NAO Code of Audit Practice. The NAO is consulting on a new Code of Audit Practice for 2023/24, therefore this plan will remain draft until the finalisation of that Code.

This report outlines our risk assessment and planned audit approach. Our planning activities are still ongoing and we are providing this document to provide timely information on our planned audit approach. This will be revisited once we are able to complete our risk assessment. We note that an audit opinion has recently been expressed on the prior period, and we are in the process of arranging a file review of the predecessor auditor's audit files as part of our ongoing risk assessment. We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.



## The engagement team

Andrew Cardoza, FPCFA is the engagement director on the audit. He has 25 years of industry experience.

Andrew Cardoza shall lead the engagement and is responsible for the audit opinion.

Other key members of the engagement team include Liz Gardner, Senior Manager with 8 years of experience, Arpit Sarraf, Manager with 10 years of experience and Alison Tipping, Incharge with 5 years of experience.

Yours sincerely,

Andrew Cardoza,

***Director - KPMG LLP***

May 2024

## How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner. The audit undertaken in the current year is dependent on the finalisation of the previous auditor's work over historical financial statements. We aim to complete all audit work no later than 2 days before audit signing. As you are aware, we will not issue our audit opinion until we have completed all relevant procedures, including audit documentation.

**Restrictions on distribution**

This report is intended solely for the information of those charged with governance of Telford and Wrekin Council and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

# Overview of planned scope including materiality

**Our materiality levels**

We determined materiality for the consolidated financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of expenditure which we consider to be appropriate given the sector in which the entity operates, its ownership and financing structure, and the focus of users.

We considered qualitative factors such as stability of legislation, lack of shareholders, and public scrutiny when determining materiality for the financial statements as a whole.

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality 6.89m / 65% of materiality driven by our expectations of normal level of undetected or uncorrected misstatements in the period. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons.

**We will report misstatements to the audit committee including:**

- Corrected and uncorrected audit misstatements above £530k.
- Errors and omissions in disclosure (Corrected and uncorrected) and the effect that they, individually in aggregate, may have on our opinion.
- Other misstatements we include due to the nature of the item.

**File review**

We will undertake an appropriate prior year file review now that the previous auditors have completed the 2022/23 audit. Depending on their results, this may have an impact on the percentage used to calculate our performance materiality.

## Group Materiality

| | Group |
|---|---|
| Materiality for the consolidated financial statements as a whole | **£10.6m**<br>2% of prior year draft accounts expenditure |
| Procedure designed to detect individual errors at this level | **£6.89m** |
| Misstatements reported to the Audit Committee | **£530k** |

**Parent Materiality (T&W Council only) £10.5m**

**2% of T&W Council prior year draft accounts expenditure £514.4m**

**Performance materiality: £6.82m**

**Misstatement reporting threshold: £525k**

# Overview of planned scope including materiality (cont.)

## Timing of our audit and communications

We will maintain communication led by the engagement partner and senior manager throughout the audit. We set out below the form, timing and general content of our planned communications:

- Kick-off meeting with management in March 2024 where we outline our audit approach to planning and risk assessment and discuss management's progress in key areas;
- Due to the work of previous auditors only recently being completed, we will be communicating dates for audit completion at a future Committee.;
- Audit Committee meeting where we present our final audit plan;
- Status meetings with management in between July and September 2024 where we communicate progress on the audit plan, any misstatements, control deficiencies and significant issues;
- Closing meeting with management in September 2024 where we discuss the auditor's report and any outstanding deliverables;
- Audit Committee meeting in the Autumn where we communicate audit misstatements and significant control deficiencies; and
- Biannual private meetings can also be arranged with the Committee chair if there is interest.

Given the large amount of consultation happening in regard to the scope and timing of local government audit this audit schedule may be subject to change.

## Using the work of others and areas requiring specialised skill

We outline below where, in our planned audit response to audit risks, we expect to use the work of others such as Internal Audit or require specialised skill/knowledge to perform planned audit procedures and evaluate results.

| Others | Extent of planned involvement or use of work |
|---|---|
| **Internal Audit** | We will review the work of internal audit as part of our risk assessment procedures but will not place reliance on their work. |
| **KPMG IT Audit** | We will use our IT Audit team to understand how the Council uses IT in financial reporting, and the key processes and governance in place over those IT systems. |
| **KPMG Real Estate Valuation Expert** | We will consider the need to involve the KPMG real estate valuation team to assess the assumptions underpinning particular balances in the Council's year end land & buildings and investment property valuation. |
| **KPMG Pensions Centre of Excellence** | The pensions audit team will perform all planning, risk assessment and substantive procedures over the LGPS account balances. KPMG actuary will review and assess the underlying assumptions within the entity's year-end actuarial report. |

# Significant risks and Other audit risks

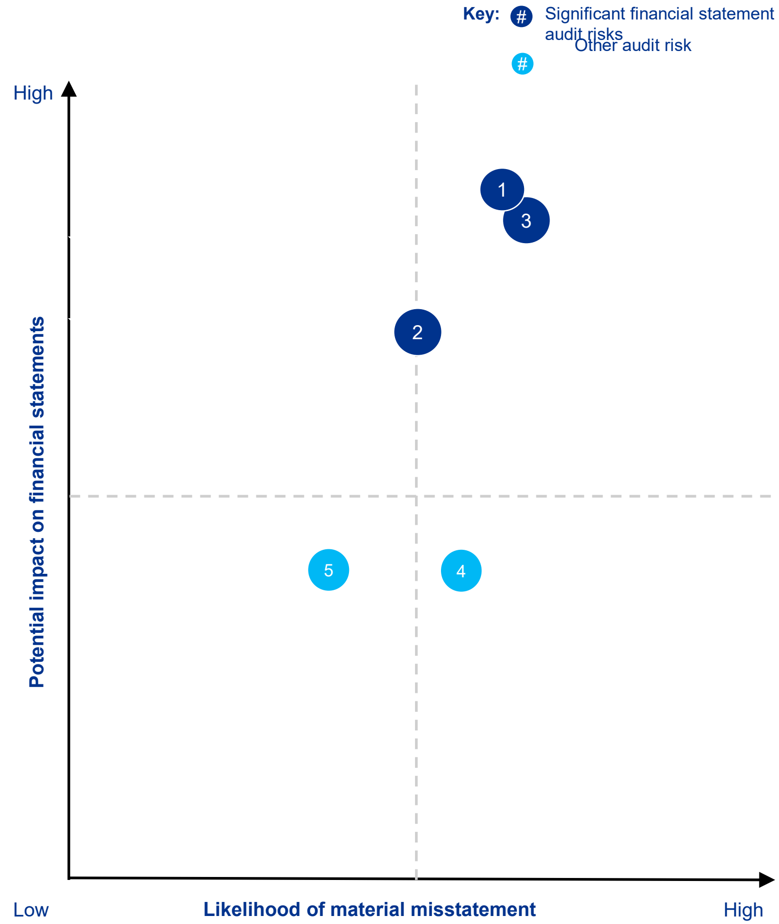
**Our risk assessment draws upon our understanding of the applicable financial reporting framework, knowledge of the business, the sector and the wider economic environment in which Telford and Wrekin operates.**

We also use our regular meetings with senior management to update our understanding and take input from sector and internal audit reports.

There may be instances where risks may change or new risks may emerge and we will therefore keep our risk assessment under review as the audit progresses. Where such items are identified we will amend our audit approach accordingly and communicate this to the Audit Committee.

| Significant risks | |
|---|---|
| **1.** | Valuation of land and buildings |
| **2.** | Management override of controls |
| **3.** | Valuation of post retirement benefit obligations |

| Other audit risks | |
|---|---|
| **4.** | Expenditure recognition |
| **5.** | Revenue Recognition - rebutted |




### Value for money

We are required to provide commentary on the arrangements in place for ensuring Value for Money is achieved at the Council and report on this via our Auditor's Annual Report. This will be published on the Council's website and include a commentary on our view of the appropriateness of the Council's arrangements against each of the three specified domains of Value for Money: financial sustainability; governance; and improving economy, efficiency and effectiveness.

# Subsidiary audit

| Entity | Reporting framework | Component Materiality | Significant risks |
|---|---|---|---|
| **Nuplace Limited** | This subsidiary is prepared in accordance with FRS102 under Companies Act 2006 and is audited by Dyke Yaxley. | TBC | Although Nuplace Limited is not a financially significant component for the Group, given the size of the Investment Property balance in the company, and the fact that Valuation of Land and Building (including Nuplace Investment property) is a significant risk for the Group, Nuplace Limited is significant due to risk.<br><br>We will therefore send Group Instructions to Dyke Yaxley asking them to complete specified audit procedures on the Investment Property balance.<br><br>We are still working through our scoping decisions and will update the audit committee if there are any significant changes. |

KPMG

# Audit risks and our audit approach (cont.)

## 1 Valuation of land and buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value

### Significant audit risk

- The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued.
- This creates a risk that the carrying value of assets not revalued in year differs materially from the year end current value.
- A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the engaged valuer.

### Planned response

We will perform the following procedures designed to specifically address the significant risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of the Council's internal valuers used in developing the valuation of the Council's properties at 31 March 2024;
- We will inspect the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will challenge the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation as part of our judgement;
- We will agree the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- We will consider the need to use our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised, including the reclassification of investment property in 2022/23;
- We will consider if any impairment is required in relation to the assets not revalued in year, and assess if their valuation remains appropriate for 2023/24;
- We will evaluate management's assessment of the fair value of the non-revalued assets in the year; and
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

# Audit risks and our audit approach (cont.)

## 2 Management override of controls (a)

Fraud risk related to unpredictable way management override of controls may occur

### Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

*Note: (a) Significant risk that professional standards require us to assess in all cases.*

### Planned response

Our audit methodology incorporates the risk of management override as a default significant risk.

- Assess accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluate the selection and application of accounting policies.
- In line with our methodology, evaluate the design and implementation of controls over journal entries and post closing adjustments.
- Assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assess the business rationale and the appropriateness of the accounting for significant transactions that are outside the component’s normal course of business, or are otherwise unusual.
- We will analyse all journals through the year using data and analytics and focus our testing on those with a higher risk, such as unusual combinations.
- We will evaluate the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We will verify that these have been appropriately disclosed within the financial statements.

# Audit risks and our audit approach (cont.)

## 3 Valuation of post retirement benefit obligations

An inappropriate amount is estimated and recorded for the defined benefit obligation

### Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates could have a significant impact on the Council's pension liability.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the Local Government Pension Scheme participation.

### Planned response

We will perform the following procedures:

- Understand the processes the Council has in place to set the assumptions used in the valuation;
- Evaluate the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Perform inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agree the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluate the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenge, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirm that the accounting treatment and entries applied by the Council are in line with IFRS and the CIPFA Code of Practice;
- Consider the adequacy of the Council's disclosures in respect of the sensitivity of the deficit to these assumptions; and
- Assess the impact of special events, if any.

# Audit risks and our audit approach (cont.)

## 4 Expenditure recognition

An inappropriate amount is recorded for expenditure

### Other audit risk

- Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered.
- Having considered the risk factors relevant to the Council and the nature of expenditure within the Council, we have determined that there is a potential significant risk relating to expenditure recognition, in relation to manual accruals.
- Our risk assessment work on this area is progressed but still to be finalised before we conclude if there is a significant risk in relation to expenditure. We will update the Audit Committee when we have reached a conclusion.

### Planned response

We will perform the following procedures:

- Complete our risk assessment to determine whether there is a significant risk over specific expenditure streams, likely in relation to completeness and accuracy;
- The conclusion of our risk assessment will impact the level of inherent risk we associate with expenditure balance, and therefore the level of work and sampling that we undertake on the following procedures:
  - We will inspect a sample of expenditure invoices posted in the period after 31 March 2024 to determine whether expenditure has been recognised in the correct accounting period and whether accruals are complete;
  - We will inspect a sample of cash payments made in the period after 31 March 2024 to determine whether expenditure has been recognised in the correct accounting period and whether accruals are complete;
  - We will select a sample of year end accruals which meet our risk criteria and inspect supporting evidence in order to assess whether the accruals are accurately recorded.

# Audit risks and our audit approach

## 5. Revenue – Rebuttal of Significant Risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Due to the nature of the revenue within the sector we have rebutted this significant risk but we do still consider a low risk of material misstatement and test accordingly. We have set out the rationale for the rebuttal of key types of income in the table below.

| Description of Income | Nature of Income | Rationale for Rebuttal |
|---|---|---|
| **Council tax** | This is the income received from local residents paid in accordance with an annual bill based on the banding of the property concerned. | The income is highly predictable and is broadly known at the beginning of the year, due to the number of properties in the area and the fixed price that is approved annually based on a band D property: there is limited opportunity for management to be able to manipulate the balance for there to be a material error in the population. |
| **Business rates** | Revenue received from local businesses paid in accordance with an annual demand based on the rateable value of the business concerned. | The income is highly predictable and is broadly known at the beginning of the year, due to the number of businesses in the area and the fixed amount that is approved annually: there is limited opportunity for management to be able to manipulate the balance for there to be a material error in the population. |
| **Fees and charges** | Revenue recognised from receipt of fixed fee services, in line with the fees and charges schedules agreed and approved annually. | The income stream represents high volume, low value sales, with simple recognition. Fees and charges values are agreed annually. We do not deem there to be any incentive or opportunity to manipulate the income. Additionally, it would take a large proportion of the transactions to have an error for there to be a material misstatement. |
| **Grant income** | Predictable income receipted primarily from central government, including for housing benefits. | Grant income at a local authority typically involves a small number of high value items and an immaterial residual population. These high value items frequently have simple recognition criteria and can be traced easily to third party documentation, most often from central government source data. There is limited incentive or opportunity to manipulate these figures. Additionally, it would take a large proportion of the transactions to have an error for there to be a material misstatement. |

# Mandatory communications - additional reporting

**Going concern**

Under NAO guidance, including Practice Note 10 - A local authority's financial statements shall be prepared on a going concern basis; this is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganization) do not negate the presumption of going concern.

However, financial sustainability is a core area of focus for our Value for Money opinion.

**Additional reporting**

Your audit is undertaken to comply with the Local Audit and Accountability Act 2014 which gives the NAO the responsibility to prepare an Audit Code (the Code), which places responsibilities in addition to those derived from audit standards on us. We also have responsibilities which come specifically from acting as a component auditor to the NAO. In considering these matters at the planning stage we indicate whether:

| | | |
|---|---|---|
| Work is completed throughout our audit and we can confirm the matters are progressing satisfactorily OK | We have identified issues that we may need to report - | Work is completed at a later stage of our audit so we have nothing to report |

We have summarised the status of all these various requirements at the time of planning our audit below and will update you as our work progresses:

| Type | Status | Response |
|---|---|---|
| Our declaration of independence | OK | No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence. |
| Issue a report in the public interest | | We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters to date. |
| Provide a statement to the NAO on your consolidation schedule | | This "Whole of Government Accounts" requirement is fulfilled when we complete any work required of us by the NAO to assist their audit of the consolidated accounts of DLUHC. |
| Provide a summary of risks of significant weakness in arrangements to provide value for money | | We are required to report significant weaknesses in arrangements. Work to be completed at a later stage. |
| Certify the audit as complete | | We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above. |

# Mandatory communications

| Type | Statements |
|---|---|
| **Management's responsibilities (and, where appropriate, those charged with governance)** | Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error.<br><br>Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity. |
| **Auditor's responsibilities** | Our responsibilities set out through the NAO Code (communicated to you by the PSAA) and can be also found on their website, which include our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. |
| **Auditor's responsibilities – Fraud** | This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit. |
| **Auditor's responsibilities – Other information** | Our responsibilities are communicated to you by the PSAA and can be also found on their website, which communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information. |
| **Independence** | Our independence confirmation at page 21 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff. |

# Telford and Wrekin Council

# Value for money risk assessment - DRAFT

## Our approach

Year ended 31 March 2024

March 2024

# Value for money

**For 2023/24 our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.**

Our responsibility is to conclude on significant weaknesses in value for money arrangements.

The main output is a narrative on each of the three domains, summarising the work performed, any significant weaknesses and any recommendations for improvement.

We have set out the key methodology and reporting requirements on this slide and provided an overview of the process and reporting on the following page.

**Risk assessment processes**

Our responsibility is to assess whether there are any significant weaknesses in the Council's arrangements to secure value for money. Our risk assessment will consider whether there are any significant risks that the Council does not have appropriate arrangements in place.

In undertaking our risk assessment we will be required to obtain an understanding of the key processes the Council has in place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Council's documentation in these areas and performing inquiries of management as well as reviewing reports, such as internal audit assessments.

**Reporting**

Our approach to value for money reporting aligns to the NAO guidance and includes:

- A summary of our commentary on the arrangements in place against each of the three value for money criteria, setting out our view of the arrangements in place compared to industry standards;
- A summary of any further work undertaken against identified significant risks and the findings from this work; and
- Recommendations raised as a result of any significant weaknesses identified and follow up of your previous auditor's recommendations.

The Council will be required to publish the commentary on its website at the same time as publishing its annual report online.

**Financial sustainability**

*How the body manages its resources to ensure it can continue to deliver its services.*

**Governance**

*How the body ensures that it makes informed decisions and property manages its risks.*

**Improving economy, efficiency and effectiveness**

*How the body uses information about its costs and performance to improve the way it manages and delivers its services.*

# Value for money

**Approach we take to completing our work to form and report our conclusion:**

## Process

**Understanding the entity's arrangements** → **Evaluation of entity's value for money arrangements** → **Value for money conclusion and reporting**

Understanding the entity's arrangements:

- Financial statements planning
- Internal reports, e.g. IA
- Management Inquiries
- External reports, e.g. regulators
- Assessment of key processes
- Annual report

Evaluation of entity's value for money arrangements:

- Targeted follow up of identified value for money significant risks
- Continual update of risk assessment

Value for money conclusion and reporting:

- Conclusion whether significant weaknesses exist

## Outputs

**Risk assessment to Audit Committee**

Our risk assessment will provide a summary of the procedures undertaken and our findings against each of the three value for money domains. This will conclude on whether we have identified any significant risks that the entity does not have appropriate arrangements in place to achieve VFM.

**Value for money assessment**

We will report by exception as to whether we have identified any significant weaknesses in arrangements.

**Public commentary**

Our draft public commentary will be prepared for the Audit Committee alongside our annual report on the accounts.

**Public commentary**

The commentary is required to be published alongside the annual report.

**We will report the outcome of our VFM risk assessment in due course.**

# Appendix

# Audit team and rotation

**Your audit team has been drawn from our specialist local government audit department and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit partner and firm.**

Andrew Cardoza is the director responsible for our audit. They will lead our audit work, attend the Audit Committee and be responsible for the opinions that we issue.

Liz Gardiner is the senior manager responsible for our audit. They will manage the audit, attend the Audit Committee and ensure we are co-ordinated across our accounts and Value for Money work.

Alison Teppin is the in-charge responsible for our. They will be responsible for our on-site fieldwork. She will complete work on more complex sections of the audit and oversee the work of our audit assistants.

In addition our KPMG team in the UK is supported by colleagues from India – namely: Arpit Sarraf – Manager

**To comply with professional standard we need to ensure that you appropriately rotate your external audit partner. There are no other members of your team which we will need to consider this requirement for:**


This will be director's first year as your engagement lead. They are required to rotate every five years, extendable to seven with PSAA approval.

# Audit cycle & timetable

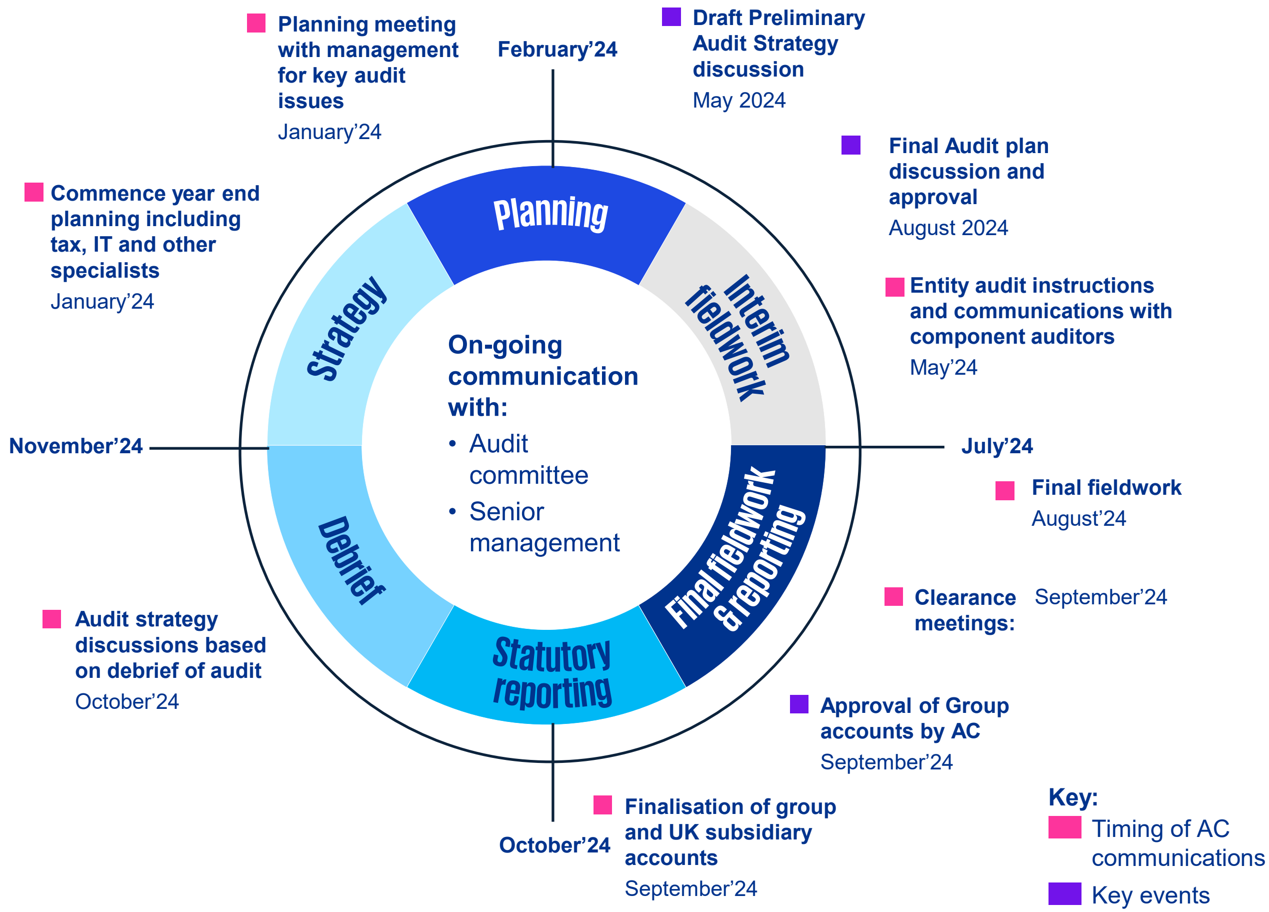
## Our schedule 2023 – 2024

We have worked with management to generate our understanding of the processes and controls in place at the Council in it's preparation of the Statement of Accounts.

We have agreed with management an audit cycle and timetable that reflects our aim to sign our audit report by December 2024.

This being the first year of KPMG as auditor we have undertaken greater activities to understand the Council at the planning stage. This level of input may not be required in future years and may change our audit timings.

Given the large amount of consultation happening in regard to the scope and timing of local government this audit **schedule may be subject to change**.



# Fees

## Audit fee

Our fees for the year ending 31 March 2024 are set out in the PSAA Scale Fees communication and are shown below.

| Entity | 2023/24 (£'000) | *2022/23 (£000)* |
|---|---|---|
| Statutory audit | **311** | **104** |
| ISA315r | **TBC** | - |
| ISA240 | **TBC** | - |
| **TOTAL** | **311** | **104** |

As per PSAA's Scale Fees Consultation, the fees do not include new requirements of ISA315 revised (risk of material misstatement); or ISA 240 (auditor's responsibilities relating to fraud. The fees also assume no significant risks are identified as part of the Value for Money risk assessment. Additional fees in relation to these areas will be subject to the fees variation process as outlined by the PSAA.

## Billing arrangements

Fees will be billed in accordance with the milestone completion phasing that has been communicated by the PSAA.

## Basis of fee information

Our fees are subject to the following assumptions:

- The entity's audit evidence files are completed to an appropriate standard (we will liaise with you separately on this);
- Draft statutory accounts are presented to us for audit;
- Supporting schedules to figures in the accounts are supplied;
- The entity's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-formas as necessary.

Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

Any variations to the above plan will be subject to the PSAA fee variation process.

# Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

**To the Audit and Risk Committee members**

**Assessment of our objectivity and independence as auditor of Telford and Wrekin Council**

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

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

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

**General procedures to safeguard independence and objectivity**

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings.

Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

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

We are satisfied that our general procedures support our independence and objectivity except for those detailed below where additional safeguards are in place.

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

*Summary of non-audit services*

There are no non-audit services applicable.

# Confirmation of Independence (cont.)

### Summary of fees

We have considered the fees charged by us to the Group and its affiliates for professional services provided by us during the reporting period.

### Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0: 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

| | 2023/24 |
|---|---|
| | £'000 |
| Statutory audit | 311 |
| Non Audit | - |
| Other Assurance Services | - |
| **Total Fees** | 311 |

### *Application of the FRC Ethical Standard 2019*

Your previous auditors will have communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as for the year 2023/24 we were not providing any non-audit or additional services that required to be grandfathered.

### Independence and objectivity considerations relating to other matters

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

### Confirmation of audit independence

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

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

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

Yours faithfully

KPMG LLP

***KPMG LLP***

# KPMG's Audit quality framework

**Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.**

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

**Commitment to continuous improvement**

- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

**Performance of effective & efficient audits**

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

**Commitment to technical excellence & quality service delivery**

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights


**Association with the right entities**

- Select entities within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

**Clear standards & robust audit tools**

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

**Recruitment, development & assignment of appropriately qualified personnel**

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

# ISA (UK) 315 Revised: Overview

## Summary

**In the prior period, ISA (UK) 315 Revised "Identifying and assessing the risks of material misstatement" was introduced and incorporated significant changes from the previous version of the ISA.**

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after **15 December 2021**.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

**What impact did the revision have on audited entities?**

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

**What will this mean for our on-going audits?**

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the entity control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

# ISA (UK) 240 Revised: changes embedded in our practices

## Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor's responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

| Area | Our approach following the revisions |
|---|---|
| **Risk assessment procedures and related activities** | 1) Increased focus on applying professional scepticism – the key areas affected are:<br>• the need for auditors not to bias their approach towards obtaining evidence that is corroborative in nature or excluding contradictory evidence;<br>• remaining alert for indications of inauthenticity in documents and records, and<br>• investigating inconsistent or implausible responses to inquiries performed.<br>2) Requirements to perform inquiries with individuals at the entity are expanded to include, amongst others, those who deal with allegations of fraud.<br>3) We will determine whether to involve technical specialists (including forensics) to aid in identifying and responding to risks of material misstatement due to fraud. |
| **Internal discussions and challenge** | We will have internal discussions among the audit team to identify and assess the risk of fraud in the audit, including determining the need for additional meetings to consider the findings from earlier stages of the audit and their impact on our assessment of the risk of fraud. |

# FRC's areas of focus

**The FRC released their [Annual Review of Corporate Reporting 2021/22] in October 2022, along with a [summary of key matters] for the coming year, primarily targeted at CEOs, CFOs and Audit Committee chairs. In addition, they released six thematic reviews during the year which should be considered when preparing financial reports.**

The reports identify where the FRC believes companies should be improving their reporting. Below is a high level summary of the key topics. We encourage management and those charged with governance to read further on those areas which are significant to the group.

## Reporting in uncertain times

Last year's Annual Review of Corporate Reporting from the FRC was prepared in the context of the current heightened economic and geopolitical uncertainty. The challenges of the Covid-19 pandemic, Russia's invasion of Ukraine and slowing of global economies has led to inflationary pressure worldwide and rising interest rates.

This makes meaningful disclosure more important than ever, and the FRC has stressed the need for companies to move beyond simply complying with the minimum requirements of the relevant accounting and reporting frameworks. They expect companies to provide high-quality, decision-useful information for investors, with companies continually assessing evolving risks and ensuring these are clearly explained in annual reports.

The potential effects of uncertainty on recognition, measurement and disclosure are numerous, and companies will need to think carefully about the impacts of uncertainty, in particular inflation, on their reporting. The Annual Review gives a number of examples including:

**Strategic report:** the impact of inflation on the business model, changes to principal risks and uncertainties, and the impact of inflation on stakeholders.

**Discount rates:** inputs need to follow a consistent approach in incorporating the effects of inflation.

**Material assumptions:** where inflation assumptions represent a source of significant estimation uncertainty, the FRC expects companies to provide explanation of how these have been calculated and sensitivity disclosures if appropriate.

**Pension schemes:** explain the effect of uncertainty on investment strategy and associated risks.

## Climate-related reporting

Climate-related reporting has advanced significantly this year as premium listed entities are required by the Listing Rules to provide disclosures consistent with the Taskforce on Climate-Related Disclosures (TCFD) recommendations. This follows the expansion of the Streamlined Energy and Carbon Reporting (SECR) rules last year, which require quoted companies and large unquoted companies and LLPs to provide emissions reporting.

Climate has therefore been an area of ongoing focus for the FRC, with a thematic reviews in both 2021 and 2022 on aspects of climate reporting. From reviews of TCFD disclosures in the year, the FRC has highlighted five areas of improvement for companies to consider going forwards:

**Granularity and specificity:** disclosures should be granular and specific both to the company and the individual disclosure requirement, including a clear link to financial planning.

**Balance:** discussion of climate-related risks and opportunities should be balanced, and companies should consider any technological dependencies.

**Interlinkage with other narrative disclosures:** companies should ensure clear links between TCFD disclosures with other narrative disclosures in the annual report.

**Materiality:** companies should clearly articulate how they have considered materiality in the context of their TCFD disclosures.

**Connectivity between TCFD and financial statements disclosures:** the FRC may challenge those that disclose significant climate risks or net zero transition plans in narrative reporting, but do not explain how this is taken into account in the financial statements.

# FRC's areas of focus (cont.)

## Cash flow statements

This continues to be a particular area of concern as it is a recurring source of errors identified by the FRC, with 15 companies restating their cash flow statements in the review period as a result of the FRC's enquiries.

Companies are encouraged to consider the guidance in the 2020 thematic review on this topic, and to ensure that robust pre-issuance reviews of the financial statements have been undertaken.

Cash flows must be classified as operating, investing or reporting in line with the requirements of the standard, and amounts reported should be consistent with disclosures elsewhere in the report and accounts including the elimination of non-cash transactions.

Several errors identified by the FRC related to the parent company cash flow statement, and it should ensured that this statement also complies with the requirements of the standard.

## Financial Instruments

Companies should ensure that disclosure is sufficient to enable users to evaluate the nature and extent of risks arising from financial instruments and the approach taken to risk management.

These disclosures should include the approach and assumptions used in the measurement of expected credit losses, and details of concentrations of risk. In times of economic uncertainty, disclosure of methods used to measure exposure to risks, and details of hedging arrangements put in place for interest rates or inflation are all the more important.

In addition, accounting policies should be provided for all material financing and hedging arrangements and any changes in these arrangements. Where companies have banking covenants, information about these should be provided (unless the likelihood of a breach is considered remote).

## Revenue

Accounting policies should be provided for all significant performance obligations and should address the timing of revenue recognition, the basis for over-time recognition, and the methodology applied.

Inflationary features in contracts with customers and suppliers and the accounting for such clauses are under increased focus this year.

## Alternative performance measures ('APMs')

APMs should not be presented with more prominence, emphasis or authority than measures stemming directly from the financial statements, and should be reconciled to the relevant financial statements line item.

## Judgements and estimates

Economic uncertainty increases the likelihood of companies needing to make significant judgements when preparing financial statements. The FRC highlights two specific examples – going concern assessments and accounting for inflationary features in contracts – where disclosure is key.

More generally, the FRC highlights the need for disclosures to clearly distinguish between estimates with a significant risk of a material adjustment to the carrying amounts of assets/liabilities within the next year, and other sources of estimation uncertainty.

Significant estimates, and the associated disclosures should be updated at the balance sheet date. Sensitivity disclosures should be meaningful for readers, for example by sensitising the most relevant assumptions, and explaining any changes in assumption since the previous year.

## Provisions and contingencies

Companies should give clear and specific descriptions of the nature and uncertainties for material provisions or contingent liabilities, the expected timeframe and the basis for estimating the probable or possible outflow.

Inputs used in measuring provisions should be consistent in the approach to incorporating the effects of inflation, and details of related assumptions should be provided if material.

## Presentation of financial statements and related disclosures

Material accounting policy information should be clearly disclosed, and additional company-specific disclosures should be provided when compliance with IFRS requirements is insufficient to adequately explain transactions.

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