Year End Report to the Audit Committee

Telford & Wrekin Council

Year end report for the year ended 31 March 2024

—

January 2025

Introduction

To the Audit Committee of Telford & Wrekin Council

We are pleased to have the opportunity to meet with you on 29 January 2025 to discuss the results of our audit of the financial statements of Telford & Wrekin Council (the 'Council'), as at and for the year ended 31 March 2024.

This report should be read in conjunction with our audit plan and strategy report, presented on 29 May 2024 and updated on 20 November 2024. We will be pleased to elaborate on the matters covered in this report when we meet.

Audit progress

We expect to be in a position to sign our audit opinion following the Committee's approval of the financial statements and representation letter, once the outstanding matters noted on page 4 of this report are satisfactorily resolved.

As reported in our updated plan on 20 November 2024, we refined the focus of our significant risk in relation to the valuation of land and buildings during the year.

We expect to issue an unmodified Auditor's Report with an unqualified Audit Opinion for 2023/24.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Restrictions on distribution of this report

Yours sincerely,

Andrew Cardoza
Director, KPMG LLP

29 January 2025

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 management; and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

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Important notice

This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the consolidated financial statements of Telford & Wrekin Council (the ‘Council), prepared in accordance with International Financial Reporting Standards (‘IFRSs’) as adapted Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, as at and for the year ended 31 March 2024.

This Report has been prepared for the Council's Audit Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication on 29 May 2024 and 20 November 2024.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Group’s financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

At the time of drafting this report, our audit is substantially complete but matters communicated in this report may change pending signature of our audit report and opinion. We will provide an oral update on the status at the meeting. Page 4 ‘Our Audit Findings’ outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report and opinion is signed.

Restrictions on distribution

The report is provided for the information of the Audit Committee of the Group; 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.

Our audit findings

Significant audit risks	Page 5 –12
Significant audit risks	**Our findings**
Valuation of land and buildings	At the time of writing this report, our testing in relation to valuation of land and buildings is not fully complete. See page 7 for further details.
Management override of controls	No significant issues have been identified in our testing of management override of controls.
Valuation of post retirement benefit obligations	The results of our testing were satisfactory. An audit misstatement was identified in relation to the impact of secondary contributions on post-retirement benefit obligations. Please refer to page 25 for further details.
Key accounting estimates	**Page 14**
Valuation of land and building	**We assessed the assumptions underpinning the valuation to be reasonable**. Methodology has been applied consistently year-on-year and assumptions around BCIS costs are in line with published rates.
Present value of defined benefit obligation	We assessed the overall assumptions underpinning the valuation to be **optimistic overall but within a reasonable range**.
Fair value of LGPS assets	**We assessed the overall assumptions underpinning the valuation to be balanced**.

Audit misstatements	Pages 24 and 25
Misstatement	**Our findings**
Financial statements	Details of the audit adjustments identified are show on pages 24 and 25. If all adjustments identified were reflected in the financial statements, **the impact on the General Fund would be a reduction of £0.5m**.
Disclosure	We identified a **small number of amendments** required to disclosures. Please see page 24 for details.

Number of Control deficiencies	Page 26
Significant control deficiencies	2
Other control deficiencies	0
Prior year control deficiencies remediated	N/A

Outstanding matters

Our **audit is substantially complete except for the following outstanding matters**:

- Finalisation of our assessment of the Existing Use Valuation (EUV) for those assets re-categorised as other land and buildings in the year;
- Final review by manager and Director and completion of audit quality and consistency checks;
- Review of updated financial statements; and
- Receipt of management representation letter and subsequent event confirmation

Significant risks and Other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our knowledge of the business, the industry and the wider economic environment in which Telford & Wrekin Council operates.

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

As a result of our ongoing risk assessment procedures, we have refined the focus of our significant risk in relation to the valuation of land and buildings. We consider that the significant risk lies with the property investment portfolio only (which is included in the other land and buildings balance), and not the specialised buildings that are valued using the Depreciation Replacement Cost (DRC) or EUV (existing use value) methodology.

See the following slides for the cross-referenced risks identified on this slide.

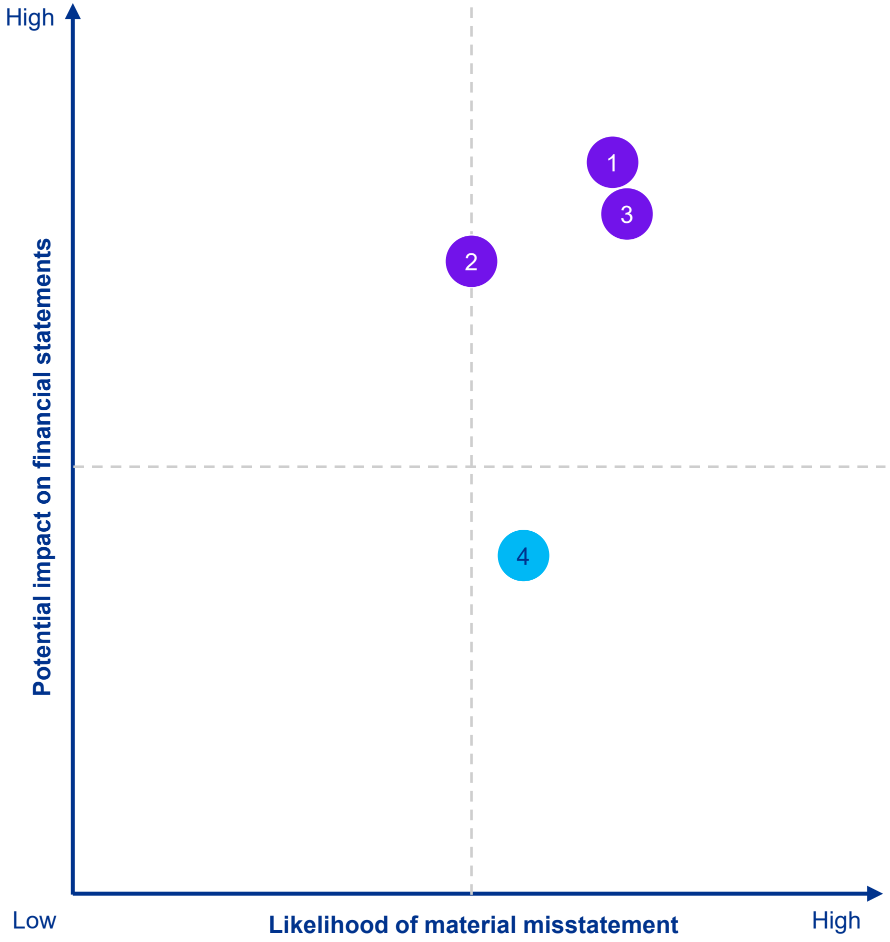
Significant risks	
1.	Valuation of land and buildings
2.	Management override of controls
3.	Valuation of post retirement benefit obligations

Other audit risks	
4.	Expenditure Recognition

Key:

Significant financial statement audit risks

Other audit risk



Audit risks and our audit approach

1 Valuation of land and buildings

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

Cautious | Neutral | Optimistic

Key: Current year

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 Code also requires all land and buildings to be formally revalued at least every five years. 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.

We consider that the significant risk lies with the assets within the other land and buildings category that were re-categorised from investment property in the prior year. We do not consider there to be a significant risk over specialised buildings that are valued using the Depreciation Replacement Cost (DRC) or EUV (existing use value) methodology. Specifically, we have linked the significant risk to the yield rate assumption in the calculation of the property investment portfolio valuations, and also the accounting treatment of the assets re-categorised from investment property in the prior year.

Our response

We have performed the following procedures designed to specifically address the significant risk associated with the valuation:

- We critically assessed the independence, objectivity and expertise of the Council's internal valuers used in developing the valuation of the Council's properties as at 31 March 2024.
- We inspected 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 compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information.
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used; We note a control deficiency in this control.
- We challenged the appropriateness of the valuation of land and buildings, including any material movements from the previous revaluations. We challenged key assumptions within the valuation as part of our judgement.
- We agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the CIPFA Code.
- We considered 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;
- Disclosures: We considered 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.)

1 Valuation of land and buildings (cont.)

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

Cautious Neutral Optimistic

Key: Current year

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 Code also requires all land and buildings to be formally revalued at least every five years. 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.

We consider that the significant risk lies with the assets within the other land and buildings category that were re-categorised from investment property in the prior year. We do not consider there to be a significant risk over specialised buildings that are valued using the Depreciation Replacement Cost (DRC) or EUV (existing use value) methodology. Specifically, we have linked the significant risk to the yield rate assumption in the calculation of the property investment portfolio valuations, and also the accounting treatment of the assets re-categorised from investment property in the prior year.

Our findings

Overall we found the valuations to be appropriate and the overall assumptions to be balanced.

- We have agreed the figures in the valuation reports provided by the valuers to the movements in land and building assets in the Fixed Asset Register and the financial statements.
- We made inquiries of the valuers responsible for the different valuation reports to understand the approach and methodology applied. We noted that the assets re-categorised from investment property in the prior year were still being valued using a Market Value approach, instead of an Existing Use Value (EUV) approach as required by the Code. We requested that the valuers make an assessment of the impact of changing the methodology to EUV and are in the process of reviewing that assessment;
- We assessed the assumptions underpinning the valuation to be reasonable. Methodology has been applied consistently year-on-year and assumptions around BCIS costs are in line with published rates.
- The Council has a number of processes that have been carried out as part of the review of the year end valuation. These types of control are defined as ‘management review controls’ by International Standards of Auditing. These controls are difficult for auditors to rely on, as auditing standards require a level of precision and formalisation that are generally not seen in practice. However, we are not raising a formal control observation for this as we consider the Council’s approach to be proportionate. As we have identified valuation of land and buildings as a significant risk area, we are required to bring this matter to your attention.

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.

Our response

Our audit methodology incorporates the risk of management override as a default significant risk. We have performed the following procedures designed to specifically address the significant risk associated with management override of controls:

- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluated the selection and application of accounting policies.
- In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assessed the business rationale and the appropriateness of the accounting for significant transactions that were outside the component’s normal course of business, or were otherwise unusual.
- We analysed all journals through the year and focused our testing on those that met our high-risk criteria.
- We evaluated the controls in place for the identification of related party relationships and tested the completeness of the related parties identified. We verified that these had been appropriately disclosed within the financial statements.

Audit risks and our audit approach (cont.)

2 Management override of controls[a] (cont.)

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.

Our findings

- We communicated our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
- Our screening procedures identified seven journal entries and other adjustments that met our high-risk criteria. Our examination has not identified any unauthorised, unsupported or inappropriate entries.
- Our review of the process for posting journals noted that there is an approval matrix built into the Agresso system, however journals with a value below £1,000 do not require approval. There are also specific users that are able to post and approve their own journals. However, we are not raising a formal control observation for this as we consider the Council's approach to be proportionate. As management override of controls is a significant risk area, we are required to bring this matter to your attention.
- We evaluated accounting estimates, including benchmarking key assumptions for the yield rate in the calculation of the property investment portfolio valuations against available published data and did not identify any indicators of management bias. See slide 14 for further discussion.
- **Our procedures did not identify any significant unusual transactions**.

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

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

Cautious Neutral Optimistic

Key:

Current year

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.

Our response

We have performed the following procedures :

- Understood the processes the Council has in place to set the assumptions used in the valuation;
- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Performed 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;
- Agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluated 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;
- Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, pension increase, inflation rate and mortality/life expectancy against externally derived data;
- Confirmed that the accounting treatment and entries applied by the Council are in line with IFRS and the CIPFA Code of Practice;
- Considered the adequacy of the Council's disclosures in respect of the sensitivity of the deficit to these assumptions; and
- Assessed the impact of special events, if any.

Audit risks and our audit approach (cont.)

3 Valuation of post retirement benefit obligations (cont.)

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

Cautious | Neutral | Optimistic

Key: Current year

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.

Our findings

- The Fund actuaries (individual and entity) are professionally qualified to perform actuarial valuations and prepare IAS19 disclosure reports being Fellow of the Institute of Actuaries in the UK;
- We have performed a reconciliation of the triennial funding valuation position to the IAS 19 liability as at 31 March 2022. Our checks are within our acceptable tolerances.
- We agreed the data provided by the audited entity to the scheme administrator for use within the calculation of the scheme valuation with no issues noted.
- The actuarial assumptions methodology remains consistent with the prior year, except for the discount rate methodology. Our actuaries have determined that this change in methodology is compliant.
- Our overall assessment of the actuarial assumptions was concluded to be Optimistic relative to our central rates but within a reasonable range. We found the CPI inflation as optimistic but within a reasonable range. All other individual assumptions were found to be balanced and within a reasonable range.
- We acknowledge Management reviews the actuarial assumptions following advice from an external actuarial specialist however the control does not meet the stringent requirements as defined by the FRC in its auditing standards; the review control lacks precision and is not documented and therefore the design is not considered to be an effective control.
- Mercer has confirmed that they have not allowed for secondary contribution as an onerous funding obligation and so have not considered whether an additional liability is required. Based on our calculations, we think that allowing for secondary contributions as a potential onerous obligation would increase the net deficit position by c.£2m - we have raised this as an uncorrected audit misstatement.
- During our review of the pensions note, we recommended that management include a narrative disclosure regarding the impact of the outcome of the Virgin Media appeal on Defined Benefit Obligations (DBO), if any, to achieve fair presentation. Management has adjusted for this recommended disclosure. Additionally, we recommended some further pension-specific disclosures, which management has agreed to include in the updated financial statements.

Audit risks and our audit approach (cont.)

Level of prudence compared to KPMG central assumptions

Audit misstatement | *Cautious* | *Balanced* | *Optimistic* | *Audit misstatement*

Reasonable range

Overall assessment of assumptions for audit consideration						***Optimistic***	
Underlying assessment of individual assumptions	**Methodology**	**Consistent methodology to prior year?**	**Compliant methodology with accounting standard?**	**Employer**	**KPMG central**	**Assessment**	**Significant assumption**
Discount rate	AA yield curve	✓	✓	4.90%	4.81%		✓
CPI inflation	RPI inflation curve with 0.7% deduction for IRP and RPI-CPI wedge	✓	✓	2.60%	2.85%		✓
Pension increases	In line with CPI + 0.1%	✓	✓	2.70%	2.70%		
Salary increases	Employer best estimate	✓	✓	CPI plus 1.25%	In line with long-term remuneration policy		
Mortality – Base tables	In line with most recent Fund valuation, with adjusted scaling factors due to the adoption of updated model for mortality improvements	✓	✓	SAPS Series 3 tables ("Middle" tables for females) with separate scaling factors for Active (A)/Deferred (D) and Pensioners (P) A/D: 102% (m)/92% (f) P: 98% (m)/92% (f)	In line with best-estimate Fund experience		✓
Future improvements	In line with most recent Fund valuation, updated to use latest available CMI model	✓	✓	CMI 2022 projections model, 1.5% long-term trend rate and default other parameters	CMI 2022,1.25% long-term trend rate and default other parameters		✓
Other demographics	In line with most recent Fund valuation	✓	✓	Members take 75% of the maximum allowable tax-free cash lump sum	In line with Scheme experience		

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.
- After completion of our detailed risk assessment procedure, we do not deem there to be a significant risk of fraud, nor error, in relation to the Council's expenditure.
- Given the size and volume of the expenditure streams, we have assigned an 'elevated' inherent risk to the balance which will result in larger samples for our post year-end cut-off testing over expenditure transactions and cash payments, and accruals sample testing. However, this is relative to an 'elevated' risk and not a significant risk

Our response

We performed the following procedures in order to respond to the risk identified:

- We inspected 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 inspected 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; and
- We selected 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.

Our findings

No issues have been identified as a result of our testing.

Key accounting estimates and management judgements – Overview

Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Cautious Neutral Optimistic

Key: Current year

Asset/liability class	Our view of management judgement (Cautious / Neutral / Optimistic)	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates (Needs improvement / Neutral / Best practice)	Further comments
Land and Buildings		£530.5	(£2)		Valuation movements have been relatively flat in 2023/24, which is consistent with the upward movement in BCIS indices being offset by reductions in published location factors.
Fair value of LGPS asset		715.5	£73.3		The pension assets balance has increased by 11% compared to the prior year, primarily due to the remeasurement gain on assets of £46,162k as compared to loss of £45,423k in prior year.
Present value of defined benefit obligation		(£732.9)	(£4.2)		The LGPS liability balance has increased by 1.37% in comparison to the prior year because of the remeasurement gain on liabilities of £26,493k arising from change in assumptions. The overall assumptions adopted by the Employer are optimistic relative to our central rates but within our normally acceptable range overall.

Group accounts

Entity	
Nuplace Limited	We identified specific balances in the Nuplace Limited financial statements that were significant to our audit of the Group financial statements and have completed work over those balances. We identified the investment property balance held by Nuplace and consolidated into the Group financial statements as the balance that was significant to our audit of the Group. At the time of writing this report, our testing of data inputs for Nuplace investment property valuations is not fully complete. However, **no issues have been identified to date**. The Nuplace Limited financial statements for 23/24 have been audited by Dyke Yaxley Limited and a clean audit opinion issued.

Other matters

Narrative report

We have read the contents of the Narrative Report and checked compliance with the requirements of the Annual Report and financial statements with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (‘the Code’). Based on the work performed:

- **We have not identified any inconsistencies between the contents of the Narrative Report and the financial statements**.
- **We have not identified any material inconsistencies between the knowledge acquired during our audit and the statements of the Council**. As Audit Committee members you confirm that you consider that the Narrative Report and financial statements taken as a whole are fair, balanced and understandable and provides the information necessary for regulators and other stakeholders to assess the Council’s performance, model and strategy.

Annual Governance Statement

We have reviewed the Council’s 2023/24 Annual Governance Statement and **confirmed that**:

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

Whole of Government Accounts

As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack.

We have confirmed that, for Telford & Wrekin Council, the threshold at which detailed testing is required has not been exceeded. We have therefore completed our work on the Whole of Government Accounts and have **no issues to report** to the Audit Committee.

We will submit an updated assurance statement on completion of the audit and following review the final financial statements.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that **we are in a position of sufficient independence and objectivity to act as your auditors**, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our 2023/24 scale fee for the audit, as set by PSAA, was **£311,069** plus VAT. We have agreed a **fee variation of £16k relating to ISA315 and ISA240**, which were not included in the PSAA scale fee.

We also complete non-audit work at the Council on certification of the Teachers Pensions Return and have included confirmation of safeguards that have been put in place to preserve our independence in the appendices.

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Value for money

Value for money

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

In discharging these responsibilities, we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor's Annual Report, which is required to be published on your website alongside your annual report and accounts.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	No significant weaknesses identified	**No significant weaknesses identified**
Governance	No significant weaknesses identified	**No significant weaknesses identified**
Improving economy, efficiency and effectiveness	No significant weaknesses identified	**No significant weaknesses identified**

Commentary on arrangements

Our full commentary on the Council's arrangements will be included in our 2023/24 Auditors Annual Report. The report is required to be published on your website alongside the publication of the annual report and accounts.

Appendices

Contents	Page

Required communications

Type	Response
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024.
Adjusted audit differences	There were two adjusted audit differences identified as part of our audit. See page 24. There is no impact on the general fund balances as a result of these adjustments.
Unadjusted audit differences	There were three unadjusted audit differences identified as part of our audit See page 25. The impact on the general fund balance would be a reduction of £0.5m..
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties, with the exception of minor disclosure issues, which has been detailed on slide 24.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	No actual or suspected fraud involving Council management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
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.
Significant difficulties	No significant difficulties were encountered during the audit, although there have been delays in finalising the work on valuation of land and buildings. We have not needed to apply the allowances available under the LARRIG guidance and the audit was completed in full.

Type	Response
Modifications to auditor's report	We expect to issue an unmodified opinion for 2023/24.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the narrative report. The narrative report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	No matters to report. The engagement team and others in the firm, as appropriate have complied with relevant ethical requirements regarding independence.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Council accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate although we note that we identified issues in accounting for schools' transactions and the valuation methodology applied to the re-categorised assets.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit were discussed, or subject to correspondence, with management.
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. It has been confirmed with the NAO that no completion certificate can be issued on any local authority entity until the Comptroller and Auditor General has signed their opinion on the Whole of Government Accounts for the relevant financial year.
Provide a statement to the NAO on your consolidation schedule	We have confirmed that, for Telford & Wrekin Council, the threshold at which detailed testing is required has not been exceeded. We have therefore completed our work on the Whole of Government Accounts and have no issues to report to the Audit Committee.

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 [(a)]	311	*104 (a)*
ISA315r [(b)] & ISA240 [(b)]	16	-
Overruns [(b)]	-	-
Non Audit [(b)]	7	-
TOTAL	**334**	*104*

Note: (a)

- *Scale fee charged by your predecessor auditor.*

Note: (b)

- *ISA 315 Revised and ISA240 is £16,070 as agreed with the Council's Interim Director of Finance, People & IDT, and approved by the PSAA.*
- *Overruns – TBC – yet to be discussed and agreed with the Council's Interim Director of Finance, People & IDT*
- *Non-Audit* - Certification of the Teachers' Pension Return for 2023/24

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- Statutory audit fees are consistent with the position reported previously with our audit plan.
- As per PSAA's Scale Fees Consultation, the scale fees did not include new requirements of ISA315 revised (risk of material misstatement); or ISA 240 (auditor's responsibilities relating to fraud.
- Additional fees are subject to the fees variation process as outlined by the PSAA.

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 Committee members

Assessment of our objectivity and independence as auditor of Telford & 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

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

Description of scope	Threats to independence	Safeguards applied	Value of service and basis of fee
Certification of the Teachers' Pension Return for 23/24	Self-interest	Work completed by a separate team. The fee is small compared to the audit fee.	Fixed fee of £6,500

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 0.02: 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	327
Other Assurance Services	7
Total Fees	**334**

Application of the FRC Ethical Standard 2019

Your previous auditors will have communicated to you 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 at 15 March 2020 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 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 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

Audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee with a **summary of corrected and uncorrected audit differences** (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Corrected audit differences (£'m)

No.	Detail	SOCI Dr/(Cr) £m	SOFP Dr/(Cr) £m	Comments
1	Dr Employee benefit expenses	£91.7		Through the audit work performed on Other Service benefit expenditure it was identified that Schools payroll costs had not been split out and classified as Employee benefit expenditure.
	Cr Other service expenditure	(91.7)		
2	Dr Land and buildings		1.8	Audit testing identified that three schools were included within the REFCUS listing that had been owned and maintained by the Council in 23/24 and therefore capital expenditure on them should not be included within REFCUS.
	Cr Other service expenditure	(1.8)		
Total		**(£1.8)**	**(£1.8)**	

Our audit work also identified a number of adjustments in disclosures which have been corrected by the Council:

- The omission of complete information about the related parties.
- Updating the Senior Officer's Remuneration note to reflect the current management structure.
- Duplication of grants reported in Note 41 Grant Income
- Incorrect banding for exit package for one employee.
- Amendments to pension disclosure Note.
- Additional narrative on contingent liabilities.
- Internal inconsistencies and minor rounding errors identified through our accounts checking have been corrected.

Audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee with a **summary of corrected and uncorrected audit differences** (including disclosures) identified during the course of our audit. The table below sets out the audit misstatements that are **uncorrected** and have not been included in the financial statements:.

Uncorrected audit differences (£'m)				
No.	Detail	SOCI Dr/(Cr) £m	SOFP Dr/(Cr) £m	Comments
1	Dr Other service expenditure	4.6		Audit testing identified that where income is received directly to a school, through either miscellaneous cash or the sales ledger, this is not recognised in the Council's accounts and is effectively excluded from the CIES.
	Cr Fees, charges and other income	(£4.6)		
2	Dr Other service expenditure	0.5		Audit testing identified a manual error in the calculation of residential accruals.
	Cr Other creditors		(0.5)	
3	Dr Remeasurement of the defined benefit liability	2.0		As at 31 March 2024, the actuary (Mercer) has confirmed that they have not allowed for secondary contribution as an onerous funding obligation and so have not considered whether an additional liability is required. Based on our actuarial calculations, allowing for secondary contributions as a potential onerous obligation would increase the net deficit position by c.£2m.
	Cr Present value of the funded LGPS liability		(2.0)	
Total		**£2.5**	**(£2.5)**	

Control Deficiencies

The recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations		
❶ **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	❷	**Accounting for schools' transactions** Through our audit work over non-pay expenditure at the Council we identified that transactions relating to Local Authority maintained schools were not accounted for in line with the CIPFA Code. School payroll costs had not been classified as 'employee benefit expenditure' and further investigation identified that income and expenditure outside of the Dedicated Schools Budget was not being recognised, as noted in the audit misstatements section. **We recommend that the Council reviews the process for identifying and consolidating transactions relating to its LA maintained schools to ensure that it is correctly accounting for and recognising income and expenditure in line with the CIPFA Code.**	
2	❷	**Valuation methodology** Our audit testing identified a number of audit differences relating to asset valuation, including errors in the calculations, differences in floor areas and inappropriate use of market value methodology for assets categorised as other land and buildings. **We recommend that the Council implements a formal review process to ensure that errors in calculations are identified. Also, instructions to the valuers should be appropriately tailored so that the valuations produced meet the requirements of the Code.**	

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.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

Our assessment of the risks of material misstatement due to fraud may be found on audit plan. We also considered the following matters required by 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*, 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:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance.

ISA (UK) 315 Revised: changes embedded in our practices

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.

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each entity's audit.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period.

Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit 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.

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

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.

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 engagement lead 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

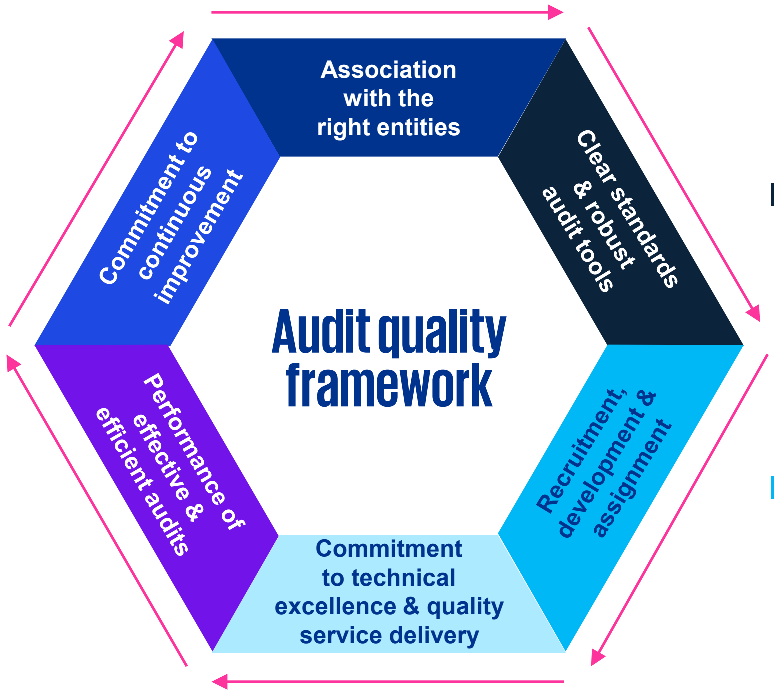
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

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 clients 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 employed KPMG specialists and specific team members

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