

# The Audit Findings for the Borough of Telford & Wrekin Council

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Year ended 31 March 2019

Revised 1 October 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Borough of Telford and Wrekin Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the group and Council and income and expenditure for the year; and</li><li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Following our initial Audit Findings Report further work was undertaken during August and September to bring the audit to a close. Our findings are summarised on pages 4 to 16. We have identified adjustments to the financial statements relating to the Council's pension liability and other issues that have resulted in a £9.2 million adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix B. We have raised recommendations for management as a result of our audit work in Appendix A. We will report separately to management and will liaise with Finance at our 2019/20 interim visit to follow up issues.</p> <p>Our work is now substantially complete. Subject to outstanding work detailed on page 4, we anticipate issuing an unqualified audit opinion. These outstanding items include the receipt of further management representations and the review of the final set of financial statements.</p> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified and is included at Appendix D.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Borough of Telford and Wrekin Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 18 to 24.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>• To certify the closure of the audit.</li></ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code with the exception of the work on Whole of Government consolidation. Therefore, we are unable to issue our completion certificate at this stage, but will issue as soon as this work is completed. This may align with the issuing of our opinion.</p>

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing 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 for the preparation of the financial statements.

## Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the component based on a measure of materiality considering each as a percentage of the parent's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that analytical procedures would be undertaken on NuPlace Ltd using their draft financial statements.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan in relation to the significant risks identified as communicated to you on 30 May 2019.

## Audit status

The accounts presented to Audit Committee on 23 July 2019 disclosed the £93.4 million Property Investment Portfolio as Property Plant and Equipment. Following further consideration by management and discussion with us, this has been restated as Investment Property (as per the draft accounts presented for audit).

Subject to outstanding audit work being completed and queries being resolved, we anticipate issuing an unqualified audit opinion. At the time of drafting the work we need to complete includes:

- concluding our work on the valuation of Property Plant and Equipment, specifically the valuation of assets not revalued in year to ensure that there is no material misstatement
- Clarification of the treatment of Revenue Expenditure Funded from Capital Under Statute (REFCUS) relating to NuPlace Limited
- final review of the audit work completed by the Engagement Lead and
- review of the restated financial statements and supporting journal entries for the agreed audit adjustments

We will request additional management representations when we are in a position to sign your opinion.

# Summary

## Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for the Borough of Telford & Wrekin Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	7,500,000	7,400,000	We decided that total expenditure in year was the most appropriate benchmark. The Council's activities are driven by taxpayer demand and expenditure is based on the level of activity. Our risk assessment of the Council led us to decide that £7.4 million (approximately 1.6% of total expenditure) was an appropriate level for materiality.
Performance materiality	5,625,000	5,550,000	Our planning and risk assessment did not identify the potential for significant control deficiencies as a result of our audit work. We decided that performance materiality of £5.55 million (75% of our overall materiality level) was an appropriate level.
Trivial matters	300,000	300,000	The National Audit Office has specified £300,000 as the threshold for reporting on Whole of Government Accounts and our level of triviality is set at this level. This means that we have not reported any errors to Those Charged with Governance that are less than £300,000.
Materiality for Senior Officer Remuneration	100,000	100,000	We identified senior management remuneration, reported in the Remuneration Report, as a sensitive item and set a lower materiality of £100,000 for testing these items.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### The revenue cycle includes fraudulent transactions

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

### Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there was little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Telford & Wrekin Council, meant that all forms of fraud were seen as unacceptable

### Conclusion

Therefore we do not consider this to be a significant risk for Telford & Wrekin Council.

2

### Management over-ride of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions

### Conclusion

Our testing did not identify any issues in relation to management over-ride of controls.

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>3 Valuation of the pension fund net liability</b></p> <p>The Council's pension fund net liability represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the value involved (£259 million in the Council's balance sheet as at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We have therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls</li> <li>evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work</li> <li>assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation</li> <li>assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability</li> <li>tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary</li> <li>undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report</li> <li>obtained assurances from the auditor of Shropshire County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements</li> </ul> <p>The Council's accounting policy on the valuation of the net pension fund liability is shown in note 1g (Employee Benefits) and related disclosures are included in notes 11, 12 and 13.</p> <p><b><u>Impact of the McCloud transitional protection pensions ruling</u></b></p> <p>At the time the accounts were prepared there was significant uncertainty about whether the Government would be have leave to appeal to the Supreme Court following the Court of Appeal's decision in the McCloud case concerning age discrimination in Judges and Firefighters' pension schemes. This is a national issue and there have been significant developments during the course of our audit. In late June the Government was refused leave to appeal, which meant that the impact on local authorities pension liabilities became more certain.</p> <p>The Council commissioned an updated actuary report to consider the impact of the McCloud court ruling on pensions liabilities. As a result the net pension liabilities increased by £9.2 million. Management has updated the financial statements to reflect the revised liability and service cost figures provided by the actuary. This has resulted in changes to the Council and Group Comprehensive Income and Expenditure Statements, Balance Sheets and Movement in Reserves Statements, as well as a number of the Notes to the financial statements including the Expenditure and Funding Analysis and explanatory note, Adjustments between Accounting Basis and Funding Basis under Regulation, Unusable Reserves and Defined Benefit Pension Schemes. This impact has been reported within 'Adjusted Misstatements' at Appendix C. This has no impact on the Council's useable reserves.</p> <p><b><u>Conclusion</u></b></p> <p>Our work has confirmed that material amendments to the net pension liabilities were required and we have tested these back to the actuarial statements. We have concluded that the net pension liability is not materially misstated following this amendment.</p>

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

3

### Valuation of the pension fund net liability

Continued

### **Impact of Guaranteed Minimum Pension (GMP) equalisation ruling**

In October 2018, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMPs) have had on members benefits. GMPs must be equalised between men and women and that past underpayments must be corrected. Actuaries have taken differing approaches to this issue.

The Government announced an “interim solution” for members in public service schemes. We performed specific work to ensure that the impact had been sufficiently included within the Council and Group’s pensions liability calculations. See further detail on page 14.

### **Conclusion**

We are satisfied that all material liabilities arising from the GMP ruling have been included in the Council and Group balance sheets, having already been considered in the original actuarial valuations obtained for the draft financial statements, or otherwise having an immaterial impact. No amendment to the financial statements has been required as a result of this issue.



# Significant findings – audit risks


Risks identified in our Audit Plan	Commentary
<p><b>4 Valuation of land and buildings</b></p> <p>The Council revalues its land and buildings on a five-yearly basis.</p> <p>To ensure the carrying value in the Council and group financial statements is not materially different from the current value at the financial statements date, the Council requests a desktop valuation from its valuation expert. This valuation represents a significant estimate by management in the financial statements due to the value involved (£472 million for Property, Plant and Equipment) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We have therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>discussed with the valuer the basis on which the valuation was carried out to ensure that the requirements of the Code are met</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>tested revaluations made during the year to see if they had been input correctly into the Council's asset register</li> </ul> <p>The Council's accounting policies on land and buildings PPE valuations are shown in notes 1t (Property, Plant and Equipment), 1u (Depreciation) and 1v (Changes to Revenue in Respect of Property, Plant and Equipment) to the financial statements and related disclosures are included in note 15.</p> <p><b>Outstanding matters</b></p> <p>We noted that £218.1 million (87%) of Other Land and Buildings were not revalued as at 31 March 2019. Although this is consistent with Code requirements and the rolling programme for valuations which the Council has in place, management need to assess whether these 'assets not revalued' could present a material misstatement within the financial statements by assessing market movements and using their Valuers to provide estimates of their current value.</p> <p>Management asked for a view from the valuer to inform their assessment. The response confirms that the valuer has undertaken detailed work across the whole of the Council's asset base. We are awaiting further information to conclude whether there is material uncertainty in the carrying value of assets not revalued. On receipt of this we will undertake further audit work to assess whether we have sufficient audit assurance that the current value as at 31 March 2019 is not materially different from the carrying value.</p> <p>Further detail of this estimation is available on page 12.</p> <p><b>Conclusion</b></p> <p>Subject to the satisfactory resolution of the issues outlined above and the satisfactory completion of outstanding work set out on page 4, we have identified no further material issues to report to those charged with governance in respect of the identified risk.</p>

# Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p><b>1 Impact of brought forward balances</b></p> <ul style="list-style-type: none"> <li>The Council's ledger system brings forward prior year balances as a single line. Year end debtor and creditor balances could not be supported by listings of the full population. Individual balances were provided for sub-totals within the note which enabled us to complete our testing, but this took a considerable amount of time.</li> <li>In obtaining these population breakdowns we have identified historic balances which the Council have agreed to remove as it overstated both the asset (debtor) and the liability (creditor).</li> <li>The year end VAT return indicates a debtor of £1.8 million and a corresponding creditor of £0.4 million (a net position of a £1.4 million debtor). These figures are not identifiable within the breakdowns provided by the Council for year end debtors and creditors within the financial statements. This may relate to prior years due to the bringing forward of balances.</li> </ul>	<ul style="list-style-type: none"> <li>In reconciling the Housing Benefit debtor to the Housing Benefit Subsidy Claim, we identified that there was £4.1 million of both debtors and creditors which were in excess of the subsidy claim. The Council has adjusted their debtor and creditor balances for this value. There is no impact on the CIES or the Net position on the balance sheet as a result of this adjustment. The equal reduction in debtors and creditors impacts the notes to the accounts.</li> <li>The breakdowns provided by the Council included a VAT creditor of £3.2 million. In reconciling this to the VAT return (showing a creditor of £0.4 million), it was identified that there was an over statement of the creditor balance of £2.8 million. As there was no VAT debtor within the breakdowns, there is therefore a corresponding understatement of the debtor balance of £1.8 million. This results in a total understatement of the VAT asset of £4.6 million.</li> <li>The Council is investigating this. Due to the size of the understatement, it is not proposed to restate the 2018/19 accounts, but this issue will be resolved for the 2019/20 accounts.</li> </ul>	<ul style="list-style-type: none"> <li>The financial statements have been amended for the Housing Benefit overstatement in both debtors and creditors.</li> <li>The financial statements have not been amended for the £4.6 million understatement of VAT. As this balance is not material, this will not impact on your opinion, but will be reported as an unadjusted misstatement within your financial statements. See appendix B.</li> <li>These issues highlight the need to fully reconcile the debtor and creditor balances to supporting information and the effective use of control accounts to support year end balances.</li> <li>We have agreed to work with the Council at the interim visit in 2019/20 to ensure that populations can be extracted to support year-end testing.</li> </ul>

# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Provisions for Single Status appeals –</b> £3.4 million – Schools £12.4 million – Non Schools	The Council is responsible for employee remuneration and benefits, even when retrospectively due as the result of a national pay award. The national process for determining the value of these payments is not complete and as such, Management's has calculated a provision based upon the latest information available. Based upon limited new information available, the provision has decreased marginally by £100k in 2018/19.	The Council has made a provision for the Single Status appeals based upon staff employment records and the likelihood of claims being made. The Council's provision follows a similar basis to the previous year. Overall we are satisfied with the approach taken.	 <b>Green</b>

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious


# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Land and Buildings – Other – £252.1 million</b>	<p>Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council engaged its in-house valuer to complete the valuation of properties as at 1<sup>st</sup> April 2018 in line with the rolling five yearly cyclical programme. Assets revalued during 2018/19 totalled £53.5 million.</p> <p>Management has considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 March 2019 to determine whether there has been a material change in the total value of these properties. Management's initial assessment of assets not revalued has identified no material change to the properties value.</p>	<p>We have</p> <ul style="list-style-type: none"> <li>• Undertaken an assessment of management's experts</li> <li>• Reviewed the completeness and accuracy of the underlying information used to determine the estimate</li> <li>• Reviewed the impact of any changes to valuation method</li> <li>• Checked the consistency of estimate against near neighbours</li> <li>• Agreed the reasonableness of the decrease in estimate</li> <li>• Reviewed the adequacy of disclosure of estimate in the financial statements</li> </ul> <p>As part of our audit we challenged the Council as to whether their Investment Properties were held solely for investment purposes. The Code prescribes that properties not held solely for investment purposes should not be classified as investment properties.</p> <p>Following further consideration by management of the relevant accounting standards management have concluded that as the primary purpose for holding these assets is for investment purposes. We have considered the rationale for this judgement and are satisfied that it is reasonable.</p> <p>Our work on page 9 has set out the challenge we have presented to Management to engage their Valuer to provide more a robust assessment of the potential movements in values of specific classifications of properties due to the value of assets not revalued in year.</p>	<p style="text-align: center;">●</p> <p style="text-align: center;">Awaiting resolution of assets not revalued</p>

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
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# Significant findings – key judgements and estimates

Summary of management’s policy	Audit Comments	Assessment																		
<p><b>Net pension liability – £314.7 million</b></p> <p>The Council’s net pension liability at 31 March 2019 is £314.7 million (PY £258.7 million) comprises the Shropshire Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council’s assets and liabilities. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> <p>There has been a £36.1 million net actuarial loss during 2018/19.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>undertaken an assessment of management’s expert</li> <li>reviewed and assessed the actuary’s roll forward approach taken,</li> <li>used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary</li> </ul> <table border="1" data-bbox="768 394 1763 684"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4% - 2.5%</td> </tr> <tr> <td>Pension increase rate</td> <td>2.3%</td> <td>2.2% - 2.3%</td> </tr> <tr> <td>Salary growth</td> <td>3.7%</td> <td>Scheme and employer specific</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>25.4</td> <td>24.8 – 26.3</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>28.7</td> <td>27.9 – 29.0</td> </tr> </tbody> </table> <p>We have reviewed the:</p> <ul style="list-style-type: none"> <li>completeness and accuracy of the underlying information used to determine the estimate</li> <li>impact of any changes to valuation method</li> <li>reasonableness of the Authority’s share of LPS pension assets.</li> <li>reasonableness of increase/decrease in estimate</li> <li>adequacy of disclosure of estimate in the financial statements</li> </ul> <p>PwC were engaged by the NAO as the consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS).</p> <p>They produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2019.</p> <p>We use this report to inform our assessment of the valuation of the pension fund liability in the Authority’s accounts. We have compared the assumptions used by the Authority’s actuary against industry benchmarks.</p> <p>Net pension liabilities were revised by £9.2 million during the audit following consideration by your Actuary of the recent McCloud judgement.</p>	Assumption	Actuary Value	PwC range	Discount rate	2.4%	2.4% - 2.5%	Pension increase rate	2.3%	2.2% - 2.3%	Salary growth	3.7%	Scheme and employer specific	Life expectancy – Males currently aged 45 / 65	25.4	24.8 – 26.3	Life expectancy – Females currently aged 45 / 65	28.7	27.9 – 29.0	<p style="text-align: center;"> <b>Green</b></p>
Assumption	Actuary Value	PwC range																		
Discount rate	2.4%	2.4% - 2.5%																		
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**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

## Summary of management's policy

### Net pension liability – Impact of McCloud Judgement and Guaranteed Minimum Pension (GMP)

#### McCloud ruling re age discrimination

In December 2018 the Court of Appeal looked at Employment Tribunal rulings in age discrimination cases brought by judges and firefighters. The Court ruled that there was age discrimination in both pension schemes where there was transitional protections given to scheme members. The Court of Appeal ruling applies to the Local Government Pension Scheme. Where transitional provisions are unlawful then those members who have been discriminated against need to be offered appropriate financial remedies to ensure they are in an equivalent position to the protected members.

At the time of drafting the accounts there it was not clear whether the Government would be able to appeal to the Supreme Court and if so what the outcome would be. The draft accounts did not include any disclosures relating to these matters. On 27 June 2019 it was announced that leave to appeal had been denied.

#### Guaranteed Minimum Pension (GMP)

In October 2018, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMPs) have had on members benefits. GMPs must be equalised between men and women and that past underpayments must be corrected. Actuaries have taken differing approaches to this issue.

## Audit Comments

Our view is that the McCloud judgement gives rise to a past service cost and liability within the scope of IAS 19 Employee Benefits as the ruling created a new obligation.

In June 2019 we wrote to all our local government clients setting out our views and recommending that bodies ask their actuaries to re-run their IAS19 reports reflecting the best estimate for restitution and providing sensitivity analysis for key assumptions.

The Council requested a revised actuarial report from Mercers, its actuary and this was received in early July 2019. Mercers estimated the potential increase in scheme liabilities as a result of this judgment to be approximately £9.2 million.

The Council have adjusted their pensions disclosures following receipt of the revised report.

Paying the equalisation increases through the LGPS increases the costs of the benefits and hence the liabilities for employers. This liability should be included in the net pension liability reported in the accounts. Mercer's have confirmed that they have included allowances up to 2021.

# Significant findings – Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

## Going concern commentary

### Management's assessment process

The Council has approved a budget for the financial year 2019/20, and updated the Medium Term Financial Strategy (MTFS), which sets out spending and resources for three years ahead.

The Assistant Director: Finance & H.R. (C.F.O.) (as s151 Officer) has reported (under Section 25 of the Local Government Act 2003) that the budget proposals are based on robust estimates, and that the level of reserves are adequate for 2019/20. He also noted that there are forecast underlying budget deficits in future years and although these deficits can be met from reserves over the next few years, this is unsustainable in the longer term.

As part of the budget for 2019/20, the Council set a savings target of £6.064 million. The Council is forecasting that it will need to identify around £25 million of further savings in addition to this £6 million over the three years (2019/20 – 2021/22) and in addition to the £117 million already delivered to the end of 2018/19.

### Work performed

We have reviewed the 2019/20 budget and updated MTFS as part of our Value for Money Conclusion work. We have considered the key variables in the MTFS and the financial risks the Council is managing.

### Concluding comments

### Auditor commentary

ISA (UK) 570 requires the auditor to evaluate management's assessment of the entity's ability to continue as a going concern for at least 12 months from the date of the accounts.

The Council's arrangements to set a budget, taking into account its key funding sources and expenditure requirements are appropriate.

### Auditor commentary

- We did not identify any material uncertainties relating to going concern up to the end of July 2020.

### Auditor commentary

- There is no impact on our opinion from our management's going concern assessment.
- We are satisfied that there are no events or conditions identified in the course of the audit that cast significant doubt on the Council's ability to continue as a going concern.

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
1 <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2 <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
3 <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4 <b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been obtained from the Council up to 23 July 2019. Due to the additional work which has been undertaken, we will request further management representations prior to signing our audit opinion.</li> </ul>
5 <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to third party banks and other financial institutions and a number of other local authorities. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmations.</li> <li>There are a number of third party balances where it is more efficient to undertake alternative procedures, including long term debt with the PWLB where we received central notification of the balances and temporary borrowing where the cash had been repaid before the audit commenced.</li> </ul>
6 <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
7 <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management were provided.</li> <li>Our audit has identified some issues relating to the production of supporting information for debtors and creditors which we will work with the Finance Team to improve.</li> </ul>



# Other responsibilities under the Code

Issue	Commentary
<b>1 Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D.</p>
<b>2 Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
<b>3 Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is not yet complete and the planned timescale for the work is to complete this by the end of July.</p>
<b>4 Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of the Borough of Telford &amp; Wrekin Council in the audit opinion, as detailed in Appendix D. This is subject to the completion of the Whole of Government Accounts consolidation work.</p>

# Value for Money

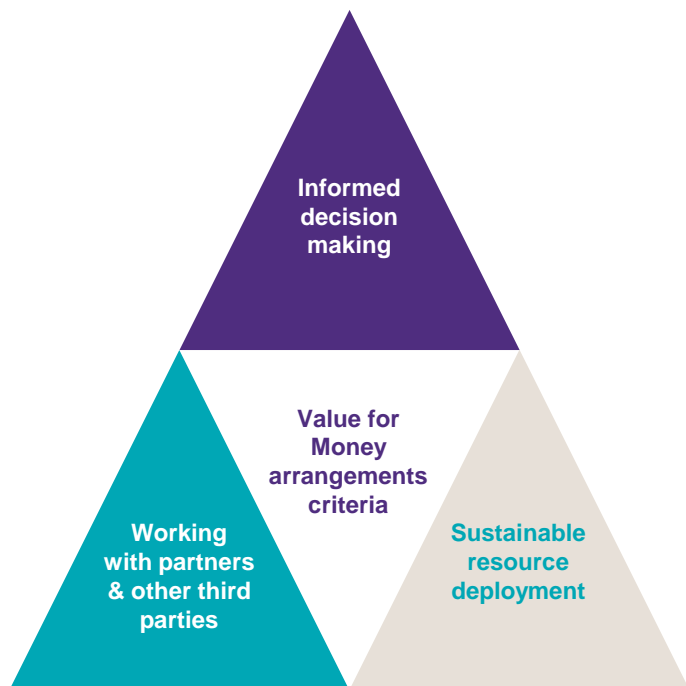
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



## Risk assessment

We carried out an initial risk assessment in March 2019 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on two significant risks that we identified in the Council's arrangements. These were:

- Financial resilience over the medium to long term

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

In arriving at our conclusion, our main considerations were as follows.

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

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

As part of the budget for 2019/20, the Council set a savings target of £6.064 million. The Council is forecasting that it will need to identify around £25 million of further savings in addition to this £6 million over the three years (2019/20 – 2021/22) and in addition to the £117 million already delivered to the end of 2018/19.

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

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

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

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

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on the following pages.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and Conclusion
<p><b>1 Financial resilience over the medium to long term</b></p> <p>The Service and Financial Planning Strategy 2019/20 – 2021/22 identifies a potential funding gap of £31 million by 2021/22 driven predominantly by cuts in government funding and increased costs in delivering statutory services. This projection is in addition to the £117.5 million already delivered since 2019/10.</p> <p>The Council is committed to investing further in Adult Social Care and Children’s Safeguarding and Family Support Services whilst also delivering £6.064 million of savings. The budget includes the use of £2.961 million of reserves to cushion the impact of the reducing Government funding and allow the level of investment required in statutory services.</p> <p>The Council’s approach to Service and Financial Planning is underpinned and informed by a Co-operative Council ethos, working together with the community and partners to collectively deliver the best outcomes with the combined resources in the local area.</p>	<p><b>Findings</b></p> <p><b>2018/19</b></p> <p>The Council’s revenue position for 2018/19 delivered a net underspend of £0.275 million. Within this there were significant pressures in Children’s Services (£3.062 million overspend) and some pressures also in Commercial Services (£0.436 million overspend). These overspends were offset by savings elsewhere, the majority of which came from Finance and Human Resources (£3.060 million), a VAT refund (£1.730 million) and additional funding (£0.455 million). The Council also managed to increase the General Fund working balance by £0.275 million and transfer £3.915 million into earmarked reserves to support future funding pressures.</p> <p><b>2019/20</b></p> <p>The Council set a budget for 2019/20 with gross revenue expenditure of £398.5 million. The budget model includes many variables and will be regularly updated as further information becomes available. The Council has a savings target of £6.1 million for 2019/20 to enable it to break even with no planned use of the Budget Strategy Reserve to support financial delivery.</p> <p>We reviewed savings plans and are satisfied that the assumptions made by the Council are reasonable. We also reviewed the key assumptions within the 2019/20 budget and found them to be reasonable.</p> <ul style="list-style-type: none"> <li>• Levels of inflation are in line with expectations and are budgeted for where contractually committed</li> <li>• Pay increases of 2.7% were included for pay awards for 2019/20 and 2020/21 and 3% for 2021/22 with an average 2.7% included for teachers pay.</li> <li>• Pension costs have been set at 14.1% plus a lump sum payment agreed for each year (£3.9 million in 19/20) and the triennial review will inform future assumptions</li> <li>• Contingencies of £3 million plus £1.1 million contingency for inflation has been made as well as £0.8 million for additional contingency in Children’s safeguarding</li> <li>• Provisions have been made to support potential expenditure and these are considered prudent</li> <li>• Precept increase of 2% “Social Care Precept” and an additional 1.2% (3.2% in total) in 2019/20</li> <li>• The timing of capital receipts to fund the capital programme has a degree of flexibility resulting in identified re-phasing opportunities identified to meet actual timelines for income</li> </ul> <p>The Financial Management Report presented to Cabinet on 11 July 2019 noted that the Council is on course to deliver its planned outturn position. Current projections indicate that £3.6 million less of the central contingency will be needed than was planned. Although this is positive, there are emerging financial pressures that need to be managed. Adult Social Care is currently projected to be £0.5 million over budget and Children’s Safeguarding and Family Support £1.6 million over budget. Action is being taken in both service areas to mitigate these projected overspends which currently are largely offset by a projected over-achievement of £2m within treasury management budgets.</p>

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and Conclusion
<p><b>1 Financial resilience over the medium to long term – continued</b></p> <p>Our audit response</p> <p>We will:</p> <p>review the Council's arrangements for ensuring that the in year financial position is monitored and reported clearly and appropriately.</p> <p>review the Council's Medium Term Service and Financial Planning Strategy assessing the assumptions used. We will also consider the Council's delivery and any reported key variances from the Financial Strategy.</p> <p>assess the delivery of savings planned for 2019/20 and the assumptions made within the budget to assess the robustness of your financial position in the short term.</p> <p>consider the delivery of the Council's Capital Strategy in 2018/19 and whether this has achieved progress against the local priorities set out.</p>	<p><b>Looking ahead</b></p> <p>There is continuing significant uncertainty over future local government funding at a national level. The changes proposed by the Government to the local government finance system are due to come in to effect in 2020/21, but it is not clear what form these will take or whether they will be implemented for 2020/21. The Government's Comprehensive Spending Review (CSR) is timetabled for 2019 although there is uncertainty about whether this will go ahead. This uncertainty is compounded by the potential impact of BREXIT, the continuing growth in demand for statutory services particularly Children's Services and Adult Social Care, as well as the likelihood that more schools will move to Academy status.</p> <p>A four-year programme to invest in, protect and care for the Borough was approved by Cabinet in May 2019. This identifies the Council's strategic focus to 2023. The Council has adopted a financial strategy of:</p> <ul style="list-style-type: none"> <li>• solving problems and promoting social responsibility to reduce demand for services</li> <li>• challenging and changing the way things are done</li> <li>• reducing dependency on Government grants.</li> <li>• being a modern organisation that seeks to always get the basics right.</li> </ul> <p>It has focused on creating efficiencies to reduce expenditure, seeking greater partnership working and developing a more commercial approach where possible. The total income from commercial ventures in 2018/19 was £19.4 million, supporting front line services. Examples of the these include:</p> <ul style="list-style-type: none"> <li>• NuPlace Ltd (a subsidiary company) – delivering £0.5 million pre-tax profit within the Company and a net benefit to the Council of £1.2m during 2018/19. NuPlace is also increasing the availability of high-quality homes in the private rented sector managed by a committed and responsible landlord. NuPlace homes will also generate Council Tax of £0.2 million and New Homes Bonus of £0.2 million based on current build projections and NHB payment arrangements.</li> <li>• A Solar Farm – generating a surplus after paying all costs of £0.2 million per annum</li> <li>• Telford Growth Fund – attracting new and retaining existing jobs in the borough with a net revenue benefit projected to be £1.2 million for the schemes committed to date</li> </ul> <p>Projections of what the Council's budget gap might be in 2020/21 and beyond are difficult to make and have a high degree of uncertainty. These projections will need to be refined as and when additional information becomes available.</p> <p>The current financial gap forecast by the Council by 2021/22 is £24.9 million. The Council has already made financial savings of £117 million since 2009/10 and continues to deliver services which are good quality and low in cost, so the financial challenge is significant. Many services provided are statutory, e.g. Education, Safeguarding Children and Adult Social Care (representing 57% of the Council's budget) and many reserves are ring-fenced, further reducing the services and budgets from the overall expenditure base which can provide saving opportunities. Further budget reductions are likely to have significant service impacts impacting service users and the wider community and will need to be carefully managed.</p>

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and Conclusion
<p>1 <b>Financial resilience over the medium to long term – continued</b></p>	<p><b>Reserves</b></p> <p>Reserves as at 31 March 2019 remained at a healthy level. The General Fund balance moved from £4.807 million at 1 April 2018 to £5.082 million at 31 March 2019. The Council has continued to provide earmarked reserves where budget pressures are known, investing £4.046 million in Children’s Safeguarding and Family Support, £0.842 million for Adult Social Care services and £0.33 million to maintain existing subsidised bus routes.</p> <p><b>Capital</b></p> <p>The capital programme totals £70.18 million, with projected spend at 92.25% of the budget allocation.</p> <p>The 2019/20 capital programme relies on £4.782 million of capital receipts as part of its funding. Asset sales over the next five years totals £25.73 million and due to the timescales involved receipts are continually reviewed and any changes reflected in future budget projections. There are a number of new allocations and some slippage but overall at Quarter 1 the programme is projected to be on target.</p> <p><b>Conclusion</b></p> <p>The Council’s financial stability going forward is highly dependent on the factors set out in our findings. The Council needs to monitor decisions from the Government with regard to funding and respond accordingly. As well as responding to any Government funding decisions it also needs to ensure that it makes appropriate decisions with regard to Council Tax and ensures that its own income generation schemes and savings plans deliver.</p>

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and Conclusion
<p><b>2 Delivery of core statutory services, particularly Adult Social Care and Children’s Safeguarding and Family Support Services</b></p>	<p><b>Findings</b></p>
<p>The Council has identified growth in demand for key services, particularly Adult Social Care and Children’s Safeguarding and Family Support Services.</p>	<p>The Care Quality Commission (CQC) last reported upon the Council’s Community Support Service in March 2018 and found it to be good across the five domains assessed. The Council also engages with health bodies, particularly the Clinical Commissioning Groups to ensure that decision made by the Council do not have a negative or detrimental impact on local health and care services being provided.</p>
<p>In order to respond to the growth in demand for Adult Social Care whilst continuing to deliver high quality support to those who meet the Care Act eligibility threshold, the Council has identified the need to radically change the approach to delivery of the provision to build a more sustainable system that promotes and maintains greater independence for most people and which maximises the support available within local communities.</p>	<p>Adult Social Care accounts for a significant proportion of the Council’s expenditure budget. The Council has recently changed the initial interaction with the Adult Social Care customer and made it a conversation around their wider and fuller needs to ensure that they are supported early to retain as much independence as possible. The Council has also adapted their staffing which has changed over a period of time in response to the shift in demand. The acute healthcare providers in the area are under considerable pressure and there is a growing demand for domiciliary services to keep people out of care homes. Recruitment of social work professionals and care workers is challenging. The Council continues to engage with both public and private sector partners to keep people living better and well for longer.</p>
<p>Pressures in children’s services come from is reflective of both demand, complexity and demographic pressures, where rising numbers of children particularly in areas of deprivation, continue to grow. In spite of this, the Council has recognised the need to respond creatively by reviewing and re-modelling services and finding new and innovative ways of doing more for less. Whilst doing so, the foremost priority is to promote the wellbeing and safeguarding of vulnerable children and young people, and to meet statutory responsibilities.</p>	<p>Ofsted published its report on Children’s Services in August 2016 which made 11 recommendations. A follow up to this report was published in October 2018 and concluded that “The local authority has responded appropriately to the findings of the last inspection, with a focus on strengthening their permanency planning processes for children looked after.” It also identified six further areas where improvement was required.</p>
	<p>Following Operation Chalice, there was an independent review of safeguarding arrangements re CSE (2014) – this was commissioned by the TWSCB and subsequently there has been a Scrutiny Review of CSE (2016). Subsequently, the Council agreed that an independent inquiry was needed. The Council’s preference was for this to be through the national Independent Inquiry into Child Sexual Abuse (IICSA). However, following some of the reports in the media in spring 2018 of non-recent cases in Telford, the council unanimously agreed to commission its own independent inquiry. Tom Crowther QC was appointed to Chair the inquiry in June 2019 and the inquiry’s terms of reference were approved by Cabinet at its meeting on 11 July 2019.</p>
	<p>The Council is a key partner in the Telford and Wrekin Safeguarding Children Board (TWSCB) along with other health, education and Housing bodies, as well as Police, Probation and Voluntary organisations. The TWSCB is not accountable for the work of individual organisations and each Board partner retains its own lines of accountability. Key roles of the TWSCB is to offer ‘scrutiny’ and challenge of each organisation’s arrangements, and gain the agreement of the partner organisations to protocols and methods of working that will ensure that safeguarding activity is conducted in a consistent and integrated manner across all the organisations represented on the Board. The TWSCB is the statutory mechanism for agreeing how the relevant organisations in Telford and Wrekin cooperate to safeguard and promote the welfare of children and young people in the area and for ensuring the effectiveness of what they do. The Council monitors the activities of this Board through its Children &amp; Young People Scrutiny Committee. We note that The TWSCB has now been replaced by the Telford &amp; Wrekin Safeguarding Partnership (29<sup>th</sup> June). This integrates both children and adult safeguarding arrangements. The Partnership is independently chaired. The three statutory partners of this Board are; Telford and Wrekin Council, West Mercia Police and Telford and Wrekin Clinical Commissioning Group, having equal and joint responsibility for local safeguarding arrangements.</p>

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and Conclusion
<p><b>2</b> <b>Delivery of core statutory services, particularly Adult Social Care and Children’s Safeguarding and Family Support Services – continued</b></p> <p>Our audit response</p> <p>We will consider the arrangements in place for delivering key statutory services, particularly those with significant financial challenges.</p>	<p><b>Conclusion</b></p> <p>The Council’s has continued to deliver statutory services within a financially challenged environment. Whilst there are some improvement issues noted by the regulators, the Council has responded well to address these and the governance around reporting progress against these recommendations is evident within the Committee structure. The Council has responded effectively to the high-profile Child Sexual Exploitation issues and continues to progress the local inquiry.</p>

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# Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. We have disclosed the Audit related services delivered to your Council below and the relevant safeguards in place.


The following non-audit services were also identified.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Certification of Teachers' pension Return	4,800 estimate TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,800 in comparison to the total fee for the audit of £90,182 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of the Housing Benefit Subsidy Claim	9,250	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,250 in comparison to the total fee for the audit of £90,182 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
<b>Non-audit related</b>			
Audit of the Council's Housing subsidiary NuPlace Limited	11,000	Self-Interest (because this is a recurring fee)	See above




These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

# Action plan

We have identified the following recommendations as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and recommendations	Management response
1		<p>Financial statements – creditor and debtor balances</p> <p>In reconciling the Housing Benefit debtor to the Housing Benefit Subsidy Claim, we identified that there was £4.1 million of debtors and creditors which were in excess of the subsidy claim.</p> <p>In reconciling the VAT debtor to the VAT returns, it was identified that there was a under statement of the debtor balance of £4.2 million.</p> <p>The Finance Team need to fully reconcile the debtor and creditor balances to supporting information and ensure that there is the effective use of control accounts to support year end balances.</p>	<p>A review of debtor and creditor balances will be undertaken during 2019/20 to ensure supporting information is available and balances can be verified; this will include investigation into the VAT account balance. Further training will be provided to finance staff in relation to the balance sheet account codes to reduce the risk of coding errors. Additional checks will also be built into the 2019/20 year end process to review all balance sheet codes at year end.</p> <p>We have agreed to work with Grant Thornton at the interim visit of the 2019/20 audit to ensure that populations can be extracted which support year-end testing.</p>

## Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
1 Restatement of pension liability	Deficit on provision of services £5,622 Dr  Other comprehensive income and expenditure £3,556 Dr	Net Pension Liability £9,178 Cr	£9,178
2 Restatement of creditors and debtors		Debtors £4,118 Cr Creditors £4,118 Dr	
<b>Overall impact</b>	<b>£9,178</b>	<b>£9,178</b>	<b>£9,178</b>

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Various minor disclosure and clerical points</b>	<ul style="list-style-type: none"> <li>As would be expected in the first draft of any large document, a number of other disclosure and clerical issues were noted.</li> </ul>	<ul style="list-style-type: none"> <li>These issues are not considered sufficiently significant to warrant attention of the committee. These were individually discussed with the finance team and a satisfactory position was mutually agreed.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>Updated figures and disclosures in the accounts where required.</li> </ul>	✓

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1 Understatement of the VAT debtor of £4.6 million – comprising overstatement of VAT creditor of £2.8 million and understatement of VAT debtor of £1.8 million.		£4,618 Dr Debtors		Misstatement is not material
<b>Overall impact</b>		<b>£4,618</b>		

## Impact of prior year unadjusted misstatements

No unadjusted misstatements were reported in relation to the final 2017/18 financial statements.

# Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

<b>Audit Fees</b>	<b>£</b>
<b>Council Audit – fee proposed per fee letter</b>	90,182
<b>Fee variation</b>	
Pensions and PPE valuation - The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 and PPE valuations needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 and PPE valuations this year.	6,000
Assessing the impact of the McCloud ruling - The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December and the Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have carried out additional work considering the impact on the financial statements along with any audit reporting requirements.	3,000
<b>Final fee – 2018/19 audit</b>	<b>£99,182</b>
<b>Final fee – 2017/18 audit</b>	<b>£117,119</b>

The fees proposed audit fee per the fee letter is included within the 2018/19 financial statements. Any additional fees will be shown as audit expenditure in the 2019/20 financial statements.

The proposed fee variation has been discussed with the Assistant Director: Finance & Human Resources. It is subject to approval by PSAA.

Due to the additional work undertaken, we may charge fees in addition to those reported here. All fees will be agreed with PSAA and reported to the Audit Committee.

<b>Non Audit Fees</b>	<b>Fees</b>
<b>Fees for other services</b>	<b>£</b>
<b>Audit related services:</b>	
• Housing Benefit subsidy claim 2018/19 *	9,250
• Teachers' Pension Authority Claim 2018/19	Not yet appointed
<b>Non-audit services</b>	<b>0</b>
	<b>£9,250</b>

\* The fee for Housing Benefit was agreed on the basis that there would not be any additional testing required. Errors identified to date indicate that additional testing will now be required and as such we anticipate increasing our fee for this work.

# Audit opinion

We anticipate we will provide the Group with an unmodified audit report

## Independent auditor's report to the members of Borough of Telford & Wrekin Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of the Borough of Telford & Wrekin Council (the 'Authority') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Assistant Director: Finance & H.R. (C.F.O.)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director: Finance & H.R. (C.F.O.) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Assistant Director: Finance & H.R. (C.F.O.) is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement, other than the financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

# Audit opinion

## Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## Responsibilities of the Authority, the Assistant Director: Finance & H.R. (C.F.O.) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Assistant Director: Finance & H.R. (C.F.O.). The Assistant Director: Finance & H.R. (C.F.O.) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the [Chief Financial Officer] determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Assistant Director: Finance & H.R. (C.F.O.) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided. The Audit Committee is Those Charged with Governance. Those charged with Governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

## Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

# Audit opinion

## **Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## **Report on other legal and regulatory requirements - Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019.

We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

## **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 [and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Richard Percival Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

[Date]





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