The Annual Audit Letter for the Borough of Telford & Wrekin Council

Year ended 31 March 2019

21 January 2020

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EJM1 I've put myself and Siobhan in here as it relates to last year. But feel free to change to whoever you want......
Emily J Mayne, 06/01/2020

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at the Borough of Telford & Wrekin Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 23 July 2019 and revised on 1 October 2019.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £7,500,000, which is 1.6% of the group's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 21 November 2019.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 21 November 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim was finalised on 28 November 2019.
Certificate	We certified that we have completed the audit of the financial statements of the Borough of Telford & Wrekin Council in accordance with the requirements of the Code of Audit Practice on 21 November 2019.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
21 January 2020

Audit of the Financial Statements

Our audit approach

Materiality
In our audit of the Council’s group financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £7,500,000, which is 1.6% of the group’s gross revenue expenditure. We determined materiality for the audit of the Council’s financial statements to be £7,400,000, which is 1.6% of the Council’s gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for and senior officer remuneration at £100,000 – as this is a sensitive item over which stakeholders will expect the Council to take particular care.

We set a lower threshold of £300,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit
Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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.	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	Therefore we do not consider this to be a significant risk for the Borough of Telford & Wrekin Council.
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.	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	Our testing did not identify any issues in relation to management over-ride of controls.

Audit of the Financial Statements

Significant Audit Risks – continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of the pension fund net liability The Council's pension fund net liability represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the value involved (£264 million in the Council's balance sheet as at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions. 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.	We have: • 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 • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • 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 • 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 • 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 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.	At the time the accounts were prepared there was significant uncertainty about whether the Government would 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. There were significant developments in this national issue 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. 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. This has resulted in changes to the Council's primary financial statements, as well as a number of the notes to the financial statements. We tested these back to the actuarial report. There was no impact on the Council's useable reserves. We concluded that there was a low risk of material estimation uncertainty within the pension fund net liability disclosed within the financial statements.

Audit of the Financial Statements

Significant Audit Risks – continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Council re-values its land and buildings on a five-yearly basis. 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) and the sensitivity of this estimate to changes in key assumptions. 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.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • discussed with the valuer the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Council's asset register 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.	We noted that £218.1 million (87%) of Other Land and Buildings were not revalued in 2018/19. Although consistent with Code requirements we asked management 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. Management in consultation with the valuer re-assessed assets not revalued. Following this re-assessment we concluded that there was a low risk of material estimation uncertainty in the carrying value of assets not revalued.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 21 November 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline. During our audit some queries relating to control accounts were highlighted, mainly due to problems disaggregating prior year balances.in the Council's financial ledger. This made it difficult for the Council to provide full breakdowns of balances, resulting in difficulty for the audit team to identify samples from the population.

In obtaining these population breakdowns we identified historic balances which the Council agreed to remove as it overstated both the asset (debtor) and the liability (creditor). There are also non-material balances relating to VAT which the Council has agreed to investigate during 2019/20.

We also found that the inclusion of a deferred capital receipts reserve in relation to the Council's investment in NuPlace Limited did not comply with Code requirements. This required a material amendment to both the 2018/19 financial statements and a prior period adjustment of the 2017/18 comparatives.

Issues arising from the audit of the financial statements

We established and maintained a good working relationship with the finance team who responded promptly to our queries and challenges.

We reported the key issues from our audit to the group's Audit Committee on 23 July 2019. We issued a revised Audit Findings Report on 1 October 2019. Following a briefing to the Chair of Audit Committee on 21 November 2019 we issued our audit opinion.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which did not identify any issues for the group auditor to consider on 21 November 2019 .

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of the Borough of Telford and Wrekin Council in accordance with the requirements of the Code of Audit Practice on 21 November 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. The risks we identified and the work we performed are set out overleaf. In particular:

Financial resilience over the medium to long term – The Council has responded well to the financial challenges since 2010, managing future financial pressures 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 concluded that the Council has effective plans in place to deliver its budget in 2019/20. There are sufficient reserves to temporarily cover shortfalls in savings or income shortfalls 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 £21.3 million in the Budget Strategy Reserve. This 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 £6.1 million. It also forecast that around £25 million of further savings are needed over the three years (2019/20 – 2021/22) in addition to the £117 million already delivered to the end of 2018/19.

If Members continue to make appropriate and measured decisions, 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.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial resilience over the medium to long term 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 2019/20. 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. 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.	**2018/19** 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. **2019/20** 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. **Reserves** 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. **Capital** The capital programme totals £70.18 million, with projected spend at 92.25% of the budget allocation. 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.	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. 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.

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial resilience over the medium to long term 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. 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. 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.	**<u>Looking ahead</u>** 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. 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. 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: • solving problems and promoting social responsibility to reduce demand for services • challenging and changing the way things are done • reducing dependency on Government grants. • being a modern organisation that seeks to always get the basics right. It focuses 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. The 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.	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.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and audit related services.

Reports issued

Report	Date issued
Audit Plan	30 May 2019
Audit Findings Report	23 July and 1 October 2019
Annual Audit Letter	28 January 2020

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	£90,182	£99,182	£117,119

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £90,182 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee variation £
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	3,000
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	3,000
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000
Total		£9,000

A. Reports issued and fees (continued)

Fees for non-audit services

Service	Fees £
Audit related services	
- Housing Benefit Subsidy claim	9,500
- Teachers Pension Agency claim	4,800

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 and group. The table summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council and group's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.