

The Audit Findings for Telford & Wrekin Council

Year ended 31 March 2020

1 October 2020



Contents



Your key Grant Thornton
team members are:

Richard Percival
Engagement Lead

T: 0121 232 5434
E: richard.d.percival@uk.gt.com

David Rowley
Manager

T: 0121 232 5225
E: david.m.rowley@uk.gt.com

Siobhan Barnard
In-Charge

T: 0121 232 5121
E: siobhan.barnard@uk.gt.com

Section

	Page
1. Headlines	3
2. Significant findings	6
3. Other matters for communication and responsibilities under the Code	14
4. Value for Money	16
5. Independence and ethics	21

Appendices

A. Action plan	23
B. Follow up of prior year recommendations	24
C. Audit adjustments	25
D. Fees	27

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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Telford & Wrekin Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<p>Covid-19</p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council.</p> <p>Front-line challenges faced by the Council included additional capacity to administer grants to businesses, closure of car parks and leisure centres with additional challenges of reopening services under new government guidelines.</p> <p>Both finance and the audit team also faced difficulties around access to systems and planning for the possibility of reduced capacity due to staff sickness.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for audited financial statements to 30 November 2020</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and communicated these considerations to you in our audit plan update dated 1 May 2020. In this we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to working entirely remotely. There were additional challenges this year in areas such as completion of audit testing and observation of reports such as the Trial Balance and Journals report. Finance and audit staff were able to overcome these challenges using of video calling and screen sharing technology. Draft financial statements were provided to the audit team as agreed on 8 June 2020.</p>
<p>Financial Statements</p>	<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 Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council's income and expenditure for the year; and • 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. <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>Our audit work was completed remotely from June to August and our findings are summarised on pages 6 to 10. The accounts were prepared to a good standard although we have found and agreed material adjustments relating to investment properties and the net pension liability. These adjustments have no impact on the reported General Fund balance and reserves.</p> <p>Our work is substantially complete, and is subject to the matters listed on the page 5. This includes receipt of the IAS19 report from the Shropshire Pension Fund auditor and completion of our testing of group investment properties.</p> <p>Subject to the clearance of outstanding matters, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 1 October 2020. We propose that our audit report will include an Emphasis of Matter paragraph, highlighting the material uncertainties in asset valuations stated in your accounts due to the Covid-19 pandemic. This will draw attention to this issue and is not a qualification of our audit opinion. It does not indicate any weakness in the Council's controls or governance.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p>

Headlines (continued)

Value for Money arrangements

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').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that Telford & Wrekin Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any new VfM risks in relation to Covid-19.

We considered the Council's financial sustainability, including considering the 2019/20 outturn position, the impact of the Covid19 pandemic on the Council's finances and the medium term financial outlook.

Based on the work we performed to address the significant risk we identified, we are satisfied that the Council has proper arrangements for securing economy, efficiency, and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 16 to 20.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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.

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 Council and group's business and is risk based and included the following.

- An evaluation of the Council's and group's internal controls environment, including its IT systems and controls.
- An evaluation of the component of the group (Nuplace Limited) based on its materiality as a percentage of total group gross revenue expenditure. From this evaluation we determined that an audit of NuPlace's investment properties was required.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 1 October 2020. These outstanding items include:

- Receipt and consideration of the Shropshire Pension Fund auditor's IAS19 report
- Completion of testing of group investment properties
- Engagement Lead final file review
- Receipt of management representation letter; and
- Review of the final set of financial statements.

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 percentages remain the same as reported in our audit plan, however on receipt of the draft accounts, this resulted in an update being made to materiality amounts as below.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	6,700,000	6,600,000	We determined that total expenditure in year was the most appropriate benchmark. Our risk assessment of the Council led us to believe that £6.7m (approximately 1.6% of gross expenditure) was an appropriate level for materiality.
Performance materiality	4,600,000	4,500,000	We decided that performance materiality of £4.6m (75% of our materiality level) was an appropriate level.
Trivial matters	335,000	330,000	We decided that matters below £335,000 (5% of our materiality level) were trivial.
Materiality for senior officer remuneration	100,000	100,000	We identified senior management remuneration as a sensitive item and set a lower materiality of £100,000 for testing these items.

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

Covid- 19

We have:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose.
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic
- evaluated whether sufficient audit evidence could be obtained through remote technology
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence

The audit has been challenging for both us and the finance team due to remote working. There are material uncertainties in the valuation of land and buildings as a result of the pandemic which are referred to on page 7 and an increased risk of material estimation uncertainty in the net pension liability. There is also a significant negative impact on the Council's financial sustainability which we refer to in more detail later.

Improper revenue recognition

As per the Audit Plan, having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for the Council.

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

Management override of controls

We:

- 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 audit work has not identified any issues in respect of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.

We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Valuation of land and buildings

We:

- 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

Our audit work has not identified any issues in respect of valuation of land and buildings. However, owing to the economic uncertainty in relation to property markets following the Covid 19 pandemic, and in line with the Council's own disclosures on sources of estimation uncertainty we propose including an Emphasis of Matter paragraph in our audit opinion. This will draw attention of users to the material uncertainty in relation to these valuations at the Balance Sheet date. This is not a qualification of our audit report and does not indicate any weaknesses in the Council's controls or governance.

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

Valuation of pension fund net liability

We:

- 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
- undertook 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

Our audit work has not identified any issues in respect of valuation of the net pension liability. We have not however received the IAS19 report from the Shropshire Pension Fund auditor. This may require us to carry out further audit work or consider the impact of valuation uncertainty due to the Covid19 pandemic.

Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
NuPlace Limited	Dyke Yaxley	<ul style="list-style-type: none">• An unqualified audit opinion of NuPlace Limited was issued by Dyke Yaxley on 17 June 2020. No significant issues were identified.• Following our review of the component auditor's work and discussions with the audit team we undertook additional audit procedures to gain assurance over material balances to the group accounts (investment properties held by the subsidiary).	<ul style="list-style-type: none">• None noted – procedures performed enabled us to gain sufficient assurance over the value of investment properties within the group financial statements.

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>IFRS 16 implementation has been delayed by one year</p> <p>Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.</p>	<p>We reviewed the disclosures in the draft accounts to consider whether they were in line with IAS 8 reporting requirements.</p>	<p>We did not identify any issues with the level of disclosure.</p>

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £316m	<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. The Council has engaged its in-house valuer to complete the valuation of properties as at 01 April 2019 on a five yearly cyclical basis. 85% of total assets were revalued during 2019/20.</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 2020 to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value..</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.</p>	<p>We:</p> <ul style="list-style-type: none"> 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 <p>Our audit work has not identified any issues in respect of valuation of land and buildings.</p>	 Green

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 estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment
-----------------	--------------------------------	--------------------	------------

Net pension liability – £333m

The Council’s net pension liability at 31 March 2020 is £333m (prior year £315m) comprising the Shropshire County Pension Fund Local Government pension scheme obligations. The Council uses Mercers to provide actuarial valuations of the Council’s assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy ,discount rates ,salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been an £18m increase in the liability during 2019/20.

We have:

- undertaken an assessment of management’s expert
- reviewed and assessed the actuary’s roll forward approach taken
- used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.40%	2.30% - 2.40%	●
Pension increase rate	2.1%	2.1%	●
Salary growth	3.40%	3.35% - 3.60%	●
Mortality – Longevity at 60 for future pensioners - Male	24.2 years	22.5 – 24.7	●
Mortality – Longevity at 60 for future pensioners - Female	26.6 years	25.9 – 27.7	●

●
Green

We have also reviewed

- the completeness and accuracy of the underlying information used to determine the estimate
- impact of any changes to valuation method
- reasonableness of the Authority’s share of LGPS pension assets
- reasonableness of increase/decrease in estimate
- adequacy of disclosure of estimate in the financial statements

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 – 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). It has been a challenging year due to the Covid-19 pandemic which has seen the administration of grants to businesses, closure of schools and car parks with additional challenges of reopening services under new government guidelines and the need to free up capacity of teams in addition to normal responsibilities. The Council is facing significant challenges to its overall financial resilience. Given the sensitive nature of these disclosures, we have identified this as an area of focus in our audit.

Going concern commentary

Management’s assessment process

The Council maintains a rolling three year budget model which is regularly updated which shows that a balanced budget can be maintained. Work has been undertaken to quantify, refine and update pressures in line with changing Government Covid19 guidance and as additional emergency funding allocations have been announced by the Government. The Senior Management Team have undertaken an in depth review of the Council’s reserves and balances and have identified one-off funding which will be used to mitigate the Covid19 pressures, after applying additional Government emergency funding, in 2020/21.

A cashflow forecast has been prepared for 2020/21. Due to the significant number of uncertainties, around both spending pressures and anticipated income, this has not been rolled forward to future years at this stage.

Work performed

We reviewed the 2020/21 budget and considered the medium term financial outlook as part of our Value for Money Conclusion work. We considered the key variables in the budget and the financial risks the Council is managing and considered management’s recent updated view on the financial position due to the Covid-19 pandemic. We also considered the most recent management assessment and reviewed the underlying cash flow forecasts.

Concluding comments

There is no impact on our audit 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.

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. Management’s assessment is comprehensive and does not include assumptions on additional government funding where funding is expected not yet known. It takes into account the impact of Covid-19 which has significantly affected the financial outlook.

The Council consider themselves a going concern as they will continue to provide services according to the public sector presumption and they do not consider there to be any material uncertainties.

We did not identify any material uncertainties relating to going concern up to the end of October 2021.

Our review of the assertions made and did not identify any further risk issues. We are not aware of any events or conditions that we are aware of that cast significant doubt on the Council’s ability to continue as a going concern for 12 month from our proposed opinion date.

We have noted that the Council’s effective financial management has ensured that it is in a strong position to cope with the exceptional financial pressures caused by the Covid19 pandemic.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	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.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group.,
Confirmation requests from third parties	We requested from management permission to send confirmation requests to third party banks and other financial institutions. This permission was granted and the requests were sent. Of these requests, all were returned with positive confirmation, except two requests which were not received so we undertook alternative procedures, including reviewing third party statements and online accounts.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management were provided.

Other responsibilities under the Code

Issue	Commentary
Other information	<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.</p>
Matters on which we report by exception	<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"> • 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 • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<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 expected group reporting threshold we are likely to be required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>As at September 2020, as a consequence of extended reported deadlines in the Local Government sector following the disruption caused by the Covid19 pandemic, group instructions have not yet been issued to enable us to complete this work. However, we anticipate that there will be an extended deadline to enable this work to be completed in winter 2020. We will comply with group instructions once issued and will report to the Committee on this work as required.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of Telford and Wrekin Council in the audit report.</p>

Value for Money

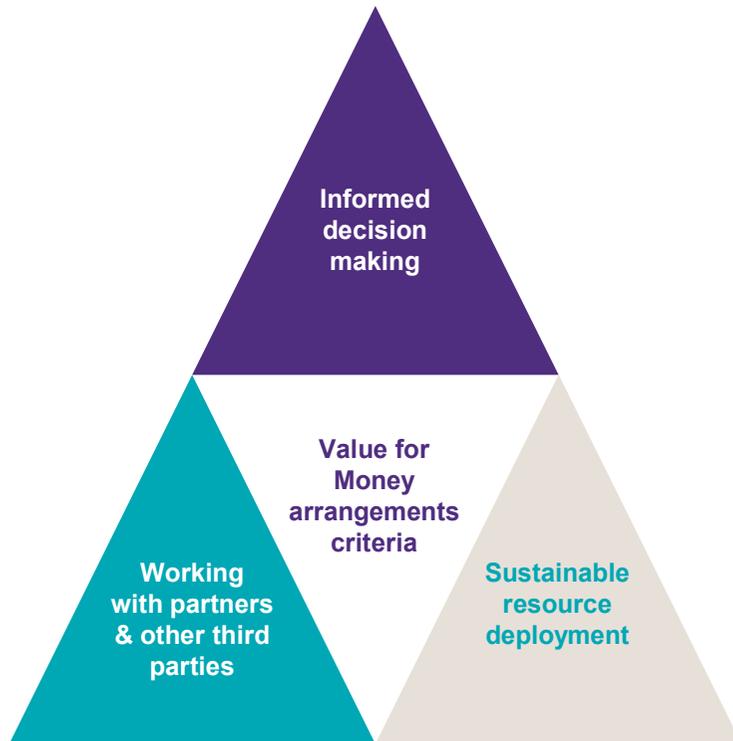
Background to our VFM approach

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 April 2020. 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 ongoing risk assessment during the course of the audit and identified a significant risk in respect of a specific area of proper arrangements using the guidance contained in AGN03. We agreed the program of work with management during our final accounts visit and report our findings to you here. The risk identified related to the financial sustainability of the Authority as follows:

"In common with the Local Government sector as a whole, the Authority is under continuing funding pressure and, as a result, is facing a number of financial challenges which together with the impact of Covid-19 and the delay to the national Comprehensive Spending Review timetable and the likely consequent late announcement of the local government finance settlement for 2021/22 and later years present an uncertain financial outlook for the medium term.

We will continue to meet with senior management to consider how the financial pressures are being managed on an ongoing basis. We will also discuss working arrangements during the Covid-19 pandemic, with a particular focus on both the reprofiling of planned expenditure to meet changing demands, oversight of additional funding provided both to the Authority and on an agency basis and governance and data security arrangements during a period of widespread remote working."

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.

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 the significant risk (in relation to Financial Sustainability) that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The 2019/20 financial outturn;
- The response to the pandemic; and
- The medium term financial outlook.

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 pages 18 to 20.

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. .

Recommendations for improvement

We discussed findings arising from our work with management. We are satisfied that the Council's arrangements for securing Value for Money are sufficiently robust and we have identified no specific recommendations for improvement.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

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

Audit area	Findings
2019/20 Financial Outturn	<p>The Council's 2019/20 financial outturn was reported to Cabinet in June and Full Council in July. This reported that the overall position was within budget and that the anticipated level of £6.1 million planned savings were achieved. This delivery reflects positively on the Council's effective overall financial management which has ensured that it is in a strong financial position to cope with the exceptional financial pressures caused by the Covid19 pandemic.</p> <p>Demand led social care services continued to stress the overall budgetary position, with Children's Safeguarding and Family Support (CSFS) overspending by £3.7 million and Adult Social Care (ASC) by £2.6 million. The budgetary pressure in CSFS was generated mainly by placement and staffing costs. These pressures were mitigated to some extent using contingencies and reserves. The high cost of placements, particularly those requiring residential care continued to impact on budget delivery, meaning that planned cost improvement could not be fully delivered. Staffing costs pressures were due to the need to cover some vacant posts with agency staff to maintain appropriate and safe caseload levels for social workers. ASC pressures were due to a higher volume of long-term care being required than was modelled in the medium-term service plan. Although offset to some extent by increased client contributions there was a net adverse variance of £3.4 million in long-term care costs.</p> <p>The adverse variances in CSFS and ASC were largely mitigated by the better than budgeted returns on the Council's Treasury Management activities. There was a £3.8 million positive variance due to low short-term interest rates on borrowings.</p> <p>The overall reserves position of the Council remained sound at the 31 March 2020. The draft accounts show General Fund working balances increased marginally from £5.1 million to £5.2 million and earmarked reserves increased from £73.3 million to £81.7 million. The increase in earmarked reserves was almost entirely due to the Covid19 Emergency Fund reserve which had a balance of £8.2 million on 31 March 2020. This was made up of emergency funding received from the Government (£5.2 million) and internal funding due to the re-assessment of the Single Status provision (£3.0 million). Earmarked reserves at 31 March 2020 also included £21.1 million to support the delivery of the Council's medium-term Service and Financial Planning Strategy.</p>
2020/21 Responding to the Pandemic	<p>The Council's Service and Financial Planning Strategy for 2020/21 was considered by Cabinet in February and approved by Full Council in early March 2020. This was before the full impact of the Covid19 pandemic was known and was the second year that a one-year strategy was proposed and approved due to the uncertainties about future local government funding. It updated medium-term financial projections and included additional investment in both CSFS (£5.0 million) and ASC (£3.9 million), recognising the continuing financial pressures that these services face. The budget strategy included the planned use of £1.4 million of reserves to balance the 2020/21 budget and net savings targets of £3.3 million in 2020/21 and £1.3 million in 2021/22.</p>

Value for Money

Key findings (continued)

Audit area	Findings
2020/21 Responding to the Pandemic (continued)	<p>An update on financial monitoring for 2020/21 was presented to Cabinet and Council in July. This included an assessment of the financial impact of the pandemic on the Council's financial position. In common with other local authorities the Council was and is facing extreme financial pressure and increased uncertainty about its future funding. Financial pressures include increased social care costs for both adults and children's services, loss of fees and charges income and reductions in local taxation collection. Clearly, none of these changes could have been anticipated when the Service and Financial Planning Strategy was agreed, and the Council has had to adapt quickly to these changes.</p> <p>Central government responded to the additional funding pressures on local authorities and have so far provided three tranches of Covid19 funding. At the time of drafting the Council has received £11.8 million of this funding (the third tranche of £1.7 million had not been received when the July update was provided). The July update identified total pressures of £28.7 million, £20.7 million due to projected increased service spending and lost income, and £8.0 million due to reduced council tax/business rates income. Unfunded pressures totaling £18.6 million were identified in the update and it was noted that work was in progress to refine this analysis and identify mitigating actions. Areas of continuing uncertainty include the extent to which income losses will be compensated for by additional central government funding. On 24 August, the Government published details of the income compensation scheme, but it is not yet clear how much of the income shortfall the Council will receive.</p> <p>The Council had to respond rapidly to the impact of the national lock-down and this included administering emergency grant funding to businesses and the award of additional Business Rate Reliefs to eligible businesses. This was managed successfully despite a high proportion of staff having to quickly adapt to working from home on a full-time basis. By July, the Council was moving out of its emergency response phase and into a "recovery, reform and reset" phase. This includes considering and responding to the changes in the financial and operational environment in the Borough and how the Council needs to change. A mid-year Service and Financial Strategy Update will be considered by Cabinet in November.</p> <p>To date the Council has managed the unprecedented impact of the Covid19 pandemic well. Although it has a major financial challenge for 2020/21, its financial management both before and during this crisis has helped to ensure that it continues to maintain its financial sustainability. The overall financial objective is to ensure that services are appropriately funded and minimize the impact of Covid19 financial pressures on the Service and Financial Strategy Reserve to ensure that future funding uncertainties can be managed.</p>

Value for Money

Key findings (continued)

Audit area	Findings
Medium term financial outlook	<p>The Chief Financial Officer reported in the February Service and Financial Strategy report that the government's Comprehensive Spending Review (CSR) had been delayed until sometime in 2020 and that the proposed changes to local government funding had been postponed to an implementation date of April 2021. The CSR was launched in July and is the outcome will be published "in the autumn". The government has also announced that revision to local government funding would not be implemented in 2021/22 due to the impact of the pandemic on local authorities' finances. The Council therefore continues to operate in an uncertain funding environment and does not have clarity about its funding for 2021/22 and beyond.</p> <p>By July it had become clear that there were pressures on local taxation collection rates due to the economic impact of the pandemic. A loss of local taxation income of just over £8.0 million (for the Council) has been estimated, which impacts both on cash flow and the collection fund (although recovery of collection fund deficits can now be spread over three years if required). The extent of the impact is dependent on a range of factors including the severity and duration of the economic downturn which will impact on local taxation receipts, income generated from services such as car parking and leisure, and demand for services including council tax support and housing benefits. There is also continuing uncertainty over the impact of Brexit and its potential impact on the Borough.</p> <p>The Council's financial resilience over the next two years will depend on how effectively budgets are managed, the level of financial support made available from central government and the duration of the pandemic. Although there are continuing uncertainties for the Council to manage, its current financial standing means that it is in a sound position to respond to these challenges. It will clearly be important that financial discipline is maintained during this period.</p>
Auditor conclusion	<p>Based on the work we performed to address the significant risk we identified, we are satisfied that the Council has proper arrangements for securing economy, efficiency, and effectiveness in its use of resources.</p>

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

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. The following non-audit services were identified which were charged from the beginning of the financial year to [current date], as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	4,800	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £101,182 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. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	9,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £9,500 in comparison to the total fee for the audit of £101,182 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. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Action plan

We have identified one recommendation for the group 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 2020/21 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 risk	Recommendations
 Medium	Related parties It was noted that not all declarations of interest were received in 2019/20.	We recommend that the Council ensure all responses are received in 2020/21.

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of Telford and Wrekin Council's 2018/19 financial statements, which resulted in one recommendation being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<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 an 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>The debtor and creditor balances were reviewed during 2019/20 to ensure supporting information was available and balances could be verified. We reviewed the debtor and creditor balances at the end of month 10 to ensure the population could be extracted to support year-end testing.</p> <p>The Council undertook a detailed review of the VAT account balance including a review of historical VAT returns from the Council archives. This identified that the balance on the VAT account is year was correct, with a historical error on the creditor and debtor balances. This error, identified in the 2018/19 financial statements audit, has now been rectified in the 2019/20 accounts to ensure the position at 31st March 2020 is accurate for both the VAT debtor and creditor.</p> <p>Additional checks were built into the 2019/20 year-end process by the Council to review all balance sheet codes at year end.</p>

Assessment

- ✓ Action completed
- ✗ Not yet addressed

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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Various restatements to PPE and Investment properties for the following:	2,344 Dr	PPE 5,501 Dr Investment Property 4,268 Cr Revaluation Reserve 3,577Cr	2,344 Dr
<ul style="list-style-type: none"> - Revaluations of PPE - Revaluations of Investment Property - Restatements of AUC to Investment Property 			
Revaluation of pensions net liability		Pension Reserve 5,000 Dr Pension Liability 5,000 Cr	
Overall impact on Council	£2,344	£2,344	£2,344
Group restatements of AUC to Investment Property		Investment Property 3,828 Dr PPE 3,828 Cr	
Overall impact on Group	£2,344	£2,344	£2,344

Audit adjustments (continued)

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?
Various minor disclosure and clerical points	As would be expected in the first draft of any large document, a number of other disclosure and clerical issues were noted.	<p>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.</p> <p>Management response</p> <p>Updated figures and disclosures in the accounts were required.</p>	✓

Impact of unadjusted misstatements

There were no unadjusted misstatements in 2019/20.

Fees

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

Audit fees	Proposed fee	Final fee
Total audit fees (excluding VAT)	£101,182	TBC

We have provided a reconciliation from the fees per the financial statements to the above:

- £110k fees per financial statements
- £9k additional fees from 2018/19 audit
- £101k total fees per above

Non-audit fees for other services	Proposed fee	Final fee
Certification of Teachers' Pension Return	4,800	TBC
Certification of Housing Benefit Return	9,500	TBC
Total non- audit fees (excluding VAT)	£14,300	TBC



© 2020 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.