The Annual Audit Letter for Borough of Telford & Wrekin Council

Year ended 31 March 2020

21 January 2021

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Borough of Telford & Wrekin Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council 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 dated 1 October 2020.

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.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council, including changing patterns of service demand and providing logistical support to partner organizations in managing the crisis.

The finance and audit teams have also had to consider managing staff sickness, access to systems and team capacity. However, in practice we found that absence was limited over the summer and both teams were able to effectively manage the remote working process.

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

Grant Thornton UK LLP
January 2021

Executive Summary

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £6.6m (Group: £6.7m), which is approximately 2**%** of the Council's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council and Group's financial statements on 11 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the Group's property investments in relation to the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
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 11 November 2020.
Certificate	We certified that we have completed the audit of the financial statements of Borough of Telford & Wrekin Council and Group in accordance with the requirements of the Code of Audit Practice on 11 November 2020.

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's 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 £6.7m (Council £6.6m), which is 2% of gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality of £100,000 for senior officer remuneration to reflect the additional sensitivity in this area.

We set a lower threshold of £335,000 (Council £330,000), 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 Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts 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 Council'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
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, and therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • 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. The draft financial statements were provided on 8 June 2020 • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert • 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	Apart from the issue noted concerning land and buildings valuations (referred to in our emphasis of matter paragraph and which we discuss later in the report) we do not have any concerns to report in relation to this risk.
Management override 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 The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, this was one of the most significant assessed risks of material misstatement.	We: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined 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 considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions	Our audit work did not identify any issues to report in respect of management override of controls.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the 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 sufficiently regularly (minimum every five years) basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£316 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current vale at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was on of the most significant assessed risks of material misstatement, and a key audit matter.	We: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • wrote to the valuer to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding of the Council's valuer's report and the assumptions that underpin the valuation • tested revaluations made during the year to ensure they had been input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these were not materially different to current value at year end.	Due to the outbreak of Covid-19 market activity was impacted in many sectors. The Council's valuers considered that less weight could be attached to previous market evidence to inform their opinions of value. They therefore reported to the Council on the basis of 'material valuation uncertainty' The Council's financial statements included relevant wording in relation to material uncertainty. We included this in our Emphasis of Matter paragraph in our audit opinion to draw this to the attention of the reader.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the 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 the pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£47 million in the Council's 2019/20 balance sheet) and the sensitivity of the estimate to changes in key assumptions. We 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.	The Council's total net pension liability at 31 March 2020 is £333m (PY £315m) in relation to its participation in the Local Government Pension Scheme (LGPS). The Council engages an expert to provide an actuarial valuation of its assets and liabilities derived from these schemes. A full actuarial valuation is required periodically. 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 returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.. We: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability was not materially misstated and evaluated 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 valuations • assessed the accuracy and completeness of the information provided by the Council to the actuaries to estimate the liabilities • 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 actuaries • 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 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 did not identify any material issues in relation to the valuation of the pension fund net liability.

Audit of the Financial Statements

Audit opinion
We gave an unqualified opinion on the Council's financial statements on 11 November 2020.

Preparation of the financial statements
The Council presented us with draft financial statements in June in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements
We reported the key issues from our audit to the Council's Audit Committee on 1 October 2020.
In addition to the key audit risks reported above, we identified a small number of adjustments and recommendations through the course of the audit. We attach these as an Appendix to this Letter.

Annual Governance Statement and Narrative Report
We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in June.

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 in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold on 1 December 2020.

Certificate of closure of the audit
We certified that we have completed the audit of the financial statements of the Council in accordance with the requirements of the Code of Audit Practice on 1 December 2020.

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 April 2020 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.

As part of our Audit Findings report agreed with the Council in October 2020, we note that no recommendations arose from our findings.

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 2020.

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	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. 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. 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. 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.
2020/21 Responding to the Pandemic	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.

Value for Money

Key findings (continued)

Audit area	Findings
2020/21 Responding to the Pandemic (continued)	An update on financial monitoring for 2020/21 was presented to Cabinet and Council in July. This included as 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. 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. 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. To date the Council has managed the unprecedented impact of the Covid19 pandemic well. Although there is a continuing financial challenge, effective financial management both before and during this crisis has helped to ensure that the Council continues to maintain its financial sustainability. The overall financial objective is to ensure that services are appropriately funded, to minimize the impact of Covid19 financial pressures on the Service and Financial Strategy Reserve and to ensure that future funding uncertainties can be managed.

Value for Money

Key findings (continued)

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Audit area	Findings
Medium term financial outlook	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. 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. 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.
Auditor conclusion	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.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2020 (addendum June 2020)
Audit Findings Report	October 2020
Annual Audit Letter	January 2021

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	101,182	116,360	99,182
Housing Benefit subsidy certification	9,500	9,500	9,500
Teachers' Pension Agency claim	4,800	4,800	4,800
Total fees	**115,482**	**130,660**	**113,482**

Area	Reason	£
Agreed fee variation per Audit Plan update	Additional audit costs due to enhanced audit quality requirements to those specified in the PSAA contract.	11,000
Covid19	Additional audit cost due to impact of remote working and additional work undertaken in response to valuation issues.	15,178
Total		**26,178**

Audit fee variation

As outlined in our audit plan, the 2019-20 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 table. The Covid19 additional fee has been agreed with the Director of Finance and Human Resources. This fee variation is subject to PSAA approval.

B. 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.	Recommended 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

C. 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: - Revaluations of PPE - Revaluations of Investment Property - Restatements of AUC to Investment Property	2,344 Dr	PPE 5,501 Dr Investment Property 4,268 Cr Revaluation Reserve 3,577Cr	2,344 Dr
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**