

30 November 2009

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— Dear Laura

Annual Audit Letter 2008/09 - North Shropshire District Council

Please find below the findings from our audit of North Shropshire District Council for the year ending 31 March 2009.

Financial statements and annual governance statement

I issued an unqualified opinion on the Council's accounts on 30 September 2009, in accordance with the deadline requirements. In my opinion the accounts presented fairly the Authority's financial affairs and of its income and expenditure for the year.

I also assessed the arrangements to secure economy, efficiency and effectiveness in the Council's use of resources against criteria specified by the Audit Commission. For 2008/09, I am satisfied that, in all significant respects, North Shropshire District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Significant issues arising from the audit

I identified errors in the financial statements (other than those of a trivial nature) and reported these to management who adjusted the financial statements. The adjustments reflected the need to show an impairment of fixed assets of £1.053m as a result of the general fall in the value of property during 2008/09 due to economic conditions.

Material weaknesses in internal control

Revenues and Benefits system

I identified weaknesses in the internal control environment relating to Revenues and Benefits systems. This was the result of the transfer between the outgoing systems which did not officially operate post early December 2008 and the introduction of the new systems in February 2009. As a result of the volume of the work involved in undertaking the transfer, controls which we would normally place reliance upon for gaining assurance of the relevant transactions within the financial statements, did not operate. I understand that Shropshire Council have ensured that appropriate arrangements and controls are now operating. However, I did note that towards the end of August, there had not been any arrears collection activity in all areas, including sundry debtors. It is important that Shropshire Council view this as a priority area as the failure to recover arrears can result in future financial pressures, as well as being politically sensitive.

Accounting practice and financial reporting

Community Asset Trust

The Community Asset Trust (CAT) was originally established to benefit the local community. It has rights to receive various payments under the transfer agreement. No transactions had been directly processed through the CAT since transfer. The draft financial statements included a creditor of £558k for amounts assigned to the CAT relating to right to buy receipts and VAT share as a result of LSVT in 2007/08. My audit work established that the CAT remained an active company although legal advice confirmed that it was not registered as a charity as originally intended. I therefore requested that the Council produce group accounts to enable the opinion on the financial statements to be given by the 30 September 2009.

As a result of this, a future Corporation Tax and/or Capital Gains Tax liability may arise for the CAT. There are a number of complex issues which Shropshire Council will need to address in determining the future of the CAT and to ensure proper compliance with legal, accounting and governance requirements.

Audit Fees

I reported our fee proposals as part of the Audit Plan for 2008/09. The planned fee was £115,068 and I can confirm that this is the outturn fee for the year.

Independence

I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Closing remarks

I have discussed and agreed this letter with the Director of Resources. I will present this letter at the Audit Committee in February 2010 and will provide copies to all committee members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Yours sincerely

Tony Corcoran
District Auditor

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.