

# Annual governance report

Shropshire Council

Audit 2010/11



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**Traffic light explanation**

Red  Amber  Green 



# Key messages

**This report summarises the findings from the 2010/11 audit that is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## **Audit opinion and financial statements**

My audit of Shropshire Council's Annual Statement of Accounts for the year ended 31 March 2011 is substantially complete. Subject to the satisfactory completion of the outstanding audit procedures around officers' emoluments, I can confirm that I will be issuing an audit report including an unqualified opinion on the accounting statements.

The overall quality of your accounting statements is generally good. However, several audit differences were identified within the accounting statements presented to you in June 2011 which, although not individually material, did require adjustments. I have noted the significant ones within Appendix 2 of this report to assist you with fulfilling your governance responsibilities.

In addition, I have identified an uncertainty within the accounting of the deferred liabilities balance of £20.830m. This is shown within long term liabilities but includes sums due within 12 months of the balance sheet date which would normally be disclosed within current liabilities. The calculation in the PFI model is complex and it is currently not possible to accurately estimate a figure for current liabilities. Therefore this is an uncertainty within this figure. I am satisfied that this is not material and will review this in 2011/12.

During the audit, I have not identified any material weaknesses in the internal control environment. However, a number of changes are being made to the operation of the payroll system. As payroll is the largest item of expenditure within the Council's accounts, it is important that internal controls are maintained to ensure that payment is only being made to actual employees. I will assess the impact of the changes upon the control environment as part of my 2011/12 audit. However, my testing this year identified that a key control designed to confirm the existence of employees did not operate consistently. This impacted upon the efficiency of my audit but of greater importance is that this control operates in future years as staffing changes are likely as the Council goes through its transformation agenda.

## **Value for money**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My review confirmed that the Council has undertaken detailed work during 2010/11 to ensure financial stability and to continue to deliver front-line services. This work is continuing and has seen a strengthening of the budget monitoring process and reporting arrangements. The Council has also undertaken a detailed review of its Medium Term Financial Plan (MTFP) and continues to update Members on the financial strategy for future years. The overall impact of the budget pressures is having an impact on the Council's reserves. The policy is to have a general fund balance of between 0.5% and 2% of the gross revenue budget. For 2011/12 the minimum balance required is £3.3m and the latest Revenue Monitoring report details a forecast balance at 31 March 2012 of £1.7m. Therefore Members will need to monitor the position during the year if the desired level of reserves is to be preserved.

As part of the overall need for change, the Council has undertaken a Transformation Programme which results in a redesign of services designed to be responsive to user needs. The programme links with the MTFP and takes account of the financial uncertainties the Council faces during the next few years. The overall aim is to develop an ability to respond quickly to changing local needs and preferences while preserving an effective and motivated workforce. The Performance Management system will be an important measure in ensuring a successful transformation. Therefore the Council must continue to monitor its key performance indicators as these will inform Members of any decline in the major service areas in the future.

# Before I complete my audit

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## I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

### **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

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## I ask you to confirm to me

### **I ask the Audit Committee to:**

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
  - approve the letter of representation, provided alongside this report (Appendix 4), on behalf of the Council before I issue my opinion and conclusion; and
  - agree your response to the proposed action plan (Appendix 5).
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## Agreed future actions

The main area where I experienced significant difficulties during the audit related to securing a detailed breakdown of items of income and expenditure by service area within the Comprehensive Income and Expenditure Statement (CIES). Under new auditing standards I am required to substantively test all material lines within your accounting statements. The information was therefore needed to enable me to select my samples for testing of the transactions. This was a change to prior years sampling methodology and resulted in additional time being spent by my staff and your officers in securing the information to enable me to perform my testing. I recognise that this caused difficulties for both parties and I will be working with your officers to deliver a more efficient approach to the 2011/12 audit of income and expenditure.

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# Financial statements

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**A number of issues have arisen within the financial statements which although not individually material did require adjustments to the financial statements. I have identified misstatements of £0.21m which after consideration, management are proposing not to adjust.**

## **Opinion on the financial statements**

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

## **Misstatements in the financial statements**

### **Adjusted misstatements**

Under auditing standards I am required to bring to the attention of the Council any material misstatements, including omissions or other errors in presentation or disclosure, other than those that are clearly trifling, identified during the course of my normal audit work which have been amended. I am pleased to report that there were no material amendments required to the accounting statements. In order to assist you further in fulfilling your governance responsibilities, which include reviewing the effectiveness of the system of internal control, I have also noted two non-material items in respect of the incorrect disclosure of the liability in respect of employees annual leave entitlement as a provision rather than a creditor and the misclassification of pre-payments. These are listed in Appendix 2

There were also a number of disclosure issues relating to the change in International Financial Reporting Standards (IFRS) alongside some more minor adjustments and presentational issues were discussed with officers during the course of the audit and have been corrected. These presented no impact on the content of the financial statements and I have reported these separately to management.

## Unadjusted misstatements

I am also required to bring to the attention of the Council, misstatements, other than those that are clearly trifling, for which no adjustment has been made in the financial statements. My audit identified a misstatement which management, having given detailed consideration to, are proposing not to amend. This is in respect of the PFI grant of £0.21m. This is considered not to be material and a reader of the accounts would not be misled. To amend the accounts would incur changes to most notes and take a considerable time which is not considered proportionate to the value involved.

I would therefore ask you to consider whether making adjustments for these misstatements is appropriate. If you concur with management and decide not to adjust, please tell me why in the representation letter.

## Recommendation

### Recommendation

**R1** The Audit Committee is invited to consider the impact of the unadjusted misstatements in Appendix 3. Management having given detailed consideration to these, are not proposing to amend the financial statements. If you concur with management and decide not to adjust for these, please set out the reasons for not amending the errors in the representation letter.

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# Financial statements

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The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

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## Key audit risk and our findings

Key audit risk	Finding
<p><b>1. Council restructuring</b></p> <p>The Council is restructuring to reflect its new approach to service delivery and to deliver costs savings. There are likely to be staff changes and a reduction in staff that may potentially impact upon the delivery of my audit.</p>	<p>Although there have been changes to staffing levels I have worked with the finance team to ensure that the audit will be completed by the statutory deadline of 30 September 2011.</p>
<p><b>2. International Financial Reporting Standards</b></p> <p>The 2009/10 financial statements need to be restated using the International Financial Reporting Standards (IFRS) and 2010/11 will be the first full year of IFRS with associated new accounting policies to be introduced.</p>	<p>I have:</p> <ul style="list-style-type: none"><li>■ liaised with relevant finance staff to ensure that key decisions that resulted in significant changes were discussed in advance, e.g. PFI, leases and grants.</li><li>■ reviewed the opening balances and previous year's statements restated under IFRS as a specific audit procedure.</li><li>■ worked with the finance department to ensure that all areas of the accounts comply with the more demanding disclosure requirements under the International Financial Reporting Standards.</li></ul>

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## Key audit risk

### 3. Redundancies

The Council has indicated probable job losses as a result of its restructuring and efficiency plans. This could lead to a material redundancy provision in the financial statements that will need to be calculated in line with the statutory framework.

### 4. Valuation of housing stock

In 2009/10 adjustments were made to the valuation of council housing as a result of the availability and use of the appropriate index. There is a risk that the correct index will not be available or be used in 2010/11.

### 5. PFI schemes

The Council has two PFI schemes which are subject to complex accounting arrangements and where there were unadjusted audit differences in 2009/10 which will be carried forward into 2010/11.

## Finding

My audit work reviewed the redundancy calculations and found no areas of non-compliance with the statutory requirements.

I have undertaken a review of the revaluation of housing stock and I can confirm that the treatment is consistent with the accounting policy and with the estimation methodology adopted in 2009/10.

I have undertaken a review of the accounting for the two PFI schemes. The Council had adjusted the financial statements for the unadjusted items as detailed in my 2009/10 Annual Governance Report, treating them as Prior Period Adjustments (PPA). These changes did not meet the criteria of PPA as they were not material values and should have been adjusted for within the 2010/11 statements. I also noted that although treated as PPA, there were no accompanying notes detailing the PPA. The Council has retained its PPA as reported in the pre audit financial statements and has now included an additional note detailing the impact of the PPA. As the prior year statements are required to be restated for IFRS and the Council's approach has now been fully disclosed I have accepted this approach. Additional commentary on my PFI review is given in the following section of the report.

# Financial statements

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## Quality of your financial statements

I would like to recognise the hard work of the Finance team in ensuring that the financial statements were produced to a good standard and to the statutory deadlines. I recognise that the budgetary challenges faced by the Council have put additional pressures on all areas of the Council, including Finance. This, combined with the introduction of IFRS means that, in common with 2009/10, which was the first following local government reorganisation, there were several areas within the financial statements where amendments were required. The fact that these were primarily related to qualitative issues such as the accuracy of the supporting notes to the financial statements is testimony to the efforts made by your finance team.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. These are the issues I wish to raise with you.

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## Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
1. Accuracy of disclosure of Officers'	My work is substantially complete and I am resolving issues around officers' emoluments. I will discuss the outcome of my work with the Chair of the Audit Committee upon its

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## Issue

### emoluments in Note 32

The Code requires disclosure of the remuneration paid to senior employees and separate disclosure on the number of other officers who receive a salary of more than £50,000. These requirements are derived from (and supplemented by) the overarching requirements of the Accounts and Audit Regulations.

### 2. PFI schemes (Note 39)

The Council has two PFI schemes, Quality in Community Services (QICS) and the Waste Services scheme.

## Findings and recommendations

resolution.

I have undertaken a detailed review of Note 39. As reported above, I identified that there had been an incorrect use of PPA which impacted upon the 2009/10 comparative values. In addition to this, several issues have arisen during the audit including:

- disclosure in Note 39 for Waste PFI buildings valuation carried forward was understated by an accumulated value of £3.293m as at 31 March 2011. This was because the initial value only included a proportion of the buildings it contributed to the operator in 2007/08. This note now reflects all of the assets used by Veolia in the operation of the contract and shows a value of £9.684m for assets used in the contract. The valuation in the balance sheet is correctly recorded;
- the QICS note detailing the Commitments under the Contract incorrectly detailed values for the principal and interest elements of the future payments. This has now been corrected;
- there was no specific disclosures about the renewal or termination options under the Waste contract- this is likely to become increasingly relevant should planning consent for the Energy Recovery Facility (ERF) not be achieved; and
- there is a residual balance of £0.210m in relation to the QICS PFI grant which is due to overpayment in previous years. Currently this is disclosed in Short term creditors as the Council's view is that it is a specific grant with conditions attached to its use. My view is that it is a revenue grant not tied to specific expenditure which should be recognised in

Issue	Findings and recommendations
<p><b>3. Deferred Liabilities (Note 38)</b></p> <p>The balance of £20.830m primarily relates to the finance lease liabilities arising from the two PFI schemes. Proper accounting practice is to record the element payable within 12 months of the balance sheet date as a current liability in the Balance Sheet.</p>	<p>the Comprehensive Income and Expenditure Statement (CIES). The alternative is to create an earmarked reserve if needed. I have detailed this in Appendix 3.</p> <p>The balance of £20.830m includes sums due within 12 months of the balance sheet date. This is shown within long term liabilities but includes sums due within 12 months of the balance sheet date which would normally be disclosed within current liabilities. The calculation in the PFI model is complex and it is currently not possible to accurately estimate a figure for current liabilities. Therefore this is an uncertainty within this figure. I am satisfied that this is not material and will review this in 2011/12.</p>
<p><b>4. Balance Sheet descriptions</b></p> <p>The Balance Sheet descriptions reported in the financial statements do not follow the requirements of IFRS.</p>	<p>A number of the descriptions of items are inconsistent with IFRS requirements. For example, Property, Plant and Equipment (PPE) is described as Fixed Assets, Inventories are described as Stocks and Short term debtors are called Debtors. The Council has agreed that the revised descriptions will be included in the 2011/12 financial statements.</p>

Recommendation
<p><b>R2</b> Undertake a review of the sums payable under finance leases to ensure that the 2011/12 financial statements properly reflects the timing of the payments.</p>

# Financial statements

## Internal controls

During the audit, I have not identified any material weaknesses in the internal control environment. However, a number of changes are being made to the operation of the payroll system. As payroll is the largest item of expenditure within the Council's accounts, it is important that internal controls are maintained to ensure that payment is only being made to actual employees. I will assess the impact of the changes upon the control environment as part of my 2011/12 audit. However, my testing this year identified that a key control designed to confirm the existence of employees did not operate consistently. This impacted upon the efficiency of my audit but of greater importance is that this control operates in future years as staffing changes are likely as the Council goes through its transformation agenda.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

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### Internal control issues and our findings

Description of weakness	Potential effect	Management action
<p><b>1. Payroll – establishment lists</b></p> <p>A control is in place to confirm the existence of employees on the payroll. This requires establishment lists are sent out to directorate in budget holder order and returned to show that staff members should be on the payroll. My testing confirmed that this control did not consistently operate during 2010/11. However I did not find any evidence of the existence of any unauthorised employees on the payroll. This is a key control and in light of the redundancies</p>	<p>The risk is that a 'ghost' employee could be set up on the payroll and the control environment does not identify that this is not a properly appointed employee. This would result in fraudulent payments being made.</p>	<p>The Council has recently updated the establishment lists within Payroll to reflect the New Operating Model. Establishment lists have therefore been circulated to managers to check accuracy and return accordingly. Establishments lists are made available to managers through the MyTeam functionality within the system, however further work is required with this system to ensure that an appropriate audit trail is retained.</p>

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**Description of weakness**

being made by the Council, it is even more important that checks are made to ensure that payment is only being made to existing employees.

**Potential effect****Management action****Recommendation**

**R3** The Council must ensure that the establishment lists are circulated consistently to appropriate managers and reviewed upon their return to confirm the accuracy of payroll records.

# Financial statements

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## Significant difficulties encountered during the audit

The main area where I experienced significant difficulties during the audit related to securing a detailed breakdown of items of income and expenditure by service area within the Comprehensive Income and Expenditure Statement (CIES). Under new auditing standards I am required to substantively test all material lines within your accounting statements. The information was therefore needed to enable me to select my samples for testing of the transactions. This was a change to prior years sampling methodology and resulted in additional time being spent by my staff and your officers in securing the information to enable me to perform my testing. I recognise that this caused difficulties for both parties and I will be working with your officers to deliver a more efficient approach to the 2011/12 audit of income and expenditure.

## Significant matters that were discussed or subject to correspondence with management

I have provided details of the issues relating to these transactions within the section on the quality of your financial statements. I also dealt with questions from the public in respect of:

- Care assessments;
- Tendering for housing services;
- Enterprise House, Bishops Castle; and
- The Council's approach to consultation and equality impact assessments as part of its budget setting process.

I am satisfied that none of these materially impact upon the financial statements or upon my other statutory duties.

## Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. A draft is provided at Appendix 4.

# Value for money

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**I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources. My conclusion on each of the two areas is set out below.

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## Value for money criteria and our findings

Criterion	Findings
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council has undertaken detailed work during 2010/11 to ensure financial stability and to continue to deliver front line services. This work is ongoing and has seen a strengthening of the budget monitoring process and reporting arrangements. The Council reported an overspend of £0.5m against its budget for the year, which was a reduction on the likely outturn position reported to Members at the end of December 2010. The Council has also undertaken a detailed review of its Medium Term Financial Plan (MTFP) which has informed its decision making for the immediate future, whilst recognising the need for continuous review to protect the Council against unforeseen circumstances. Against this background, there has been a significant level of redundancies arising in 2011/12 with an estimated cost of £6.7m. The overall impact of the budget pressures is having an impact on the Council's reserves. The policy is to have a general fund balance of between 0.5% and 2% of the gross revenue budget. For 2011/12 the minimum balance required is £3.3m and the latest</p>

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Criterion	Findings
	Revenue Monitoring report details a forecast balance at 31 March 2012 of £1.7m. Therefore Members will need to closely monitor the position during the year if the desired level of reserves is to be maintained.
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>As part of the Council's need to respond to the financial pressures it faces, it has revisited its corporate structures, resulting in a Transformation Programme designed to be more responsive to user needs. The programme links with the MTFP as the re-design of services will take at least 18 months to secure the benefits required. Along the way, difficult decisions have already been faced with issues having to be addressed such as redundancies and changes to staff terms and conditions. The overall aim is to develop an ability to respond quickly to changing local needs and preferences whilst maintaining an effective and motivated workforce. As part of my review, I have undertaken an assessment of progress against the Action Plan issued following a Benefits Inspection. My review has confirmed that good progress has been made with improvements in performance being noted. I have also considered information arising during 2011/12. At this stage of the year I have not identified any significant deterioration in performance and productivity. However, the Council must continue to monitor its key performance indicators as these will inform Members of any decline in the major service areas in the future.</p>

Recommendation
<p><b>R4</b> The Council must closely monitor its financial position and take necessary action to ensure that financial stability is maintained.</p>
<p><b>R5</b> The Council must continue to monitor its key performance indicators as these will inform Members of any decline in the major service areas in the future.</p>

# Appendix 1 – Independent Auditor’s report to Members of Shropshire Council

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## **INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL**

### **Opinion on the Authority and Group accounting statements**

I have audited the Authority and Group accounting statements of Shropshire Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Shropshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Corporate Head of Finance and Commerce and auditor**

As explained more fully in the Statement of the Corporate Head of Finance and Commerce as Chief Financial Officer’s Responsibilities, the Corporate Head of Finance and Commerce as Chief Financial Officer is responsible for the preparation of the Authority and Group’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of Shropshire Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion, the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

## **Opinion on the pension fund accounting statements**

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.



This report is made solely to the members of Shropshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Financial Advice Manager and Interim Scheme Administrator as Chief Financial Officer and auditor**

As explained more fully in the Statement of the Financial Advice Manager and Interim Scheme Administrator as Chief Financial Officer Responsibilities, the Financial Advice Manager and Interim Scheme Administrator as Chief Financial Officer is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on accounting statements**

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority's responsibilities**

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

### **Auditor's responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Shropshire Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## **Certificate**

I certify that I have completed the audit of the Authority and Group accounts of Shropshire Council and Shropshire County Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

## **Grant Patterson**

Officer of the Audit Commission

Opus House, Priestley Court,  
Staffordshire Technology Park,  
Beaconside  
Stafford  
ST18 0LQ

26 September 2011

# Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
DR Provisions CR Short term creditors	This relates to the accrual for employees annual leave entitlement untaken at 31 March 2011. This was incorrectly disclosed as a provision, even though the leave will be taken within 12 months of the balance sheet date.			4,560	4,560
DR Debtors- Payments in advance CR Debtors- general debtors	Being misclassification of sums within debtors			115	115

# Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
To correctly record the PFI revenue grant which has no outstanding conditions as sums usable by the Council	DR Short term creditors CR CIES (alternative is to an earmarked reserve)		210	210	

## Appendix 4 Letter of Representation

To: Grant Patterson  
District Auditor  
Audit Commission  
Opus House,  
Priestly Court,  
Staffordshire Technology Park,  
Beaconside,  
Stafford  
ST18 0LQ

### **Shropshire Council - Audit for the year ended 31 March 2011**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Shropshire Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts included within the financial statements.

### **Compliance with the statutory authorities**

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice, which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

### **Uncorrected misstatements**

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;



- reason 1 etc;
- reason 2
- 

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

### **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.
- I also confirm that I have disclosed:
  - my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
  - my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### **Law, regulations, contractual arrangements and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### **Fair Values and use of estimation techniques**

I confirm the reasonableness of the significant assumptions within the financial statements. I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- that subsequent events do not require adjustment to the fair value measurement.

### **Assets**

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### **Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note 35 to the financial statements we have no other lines of credit arrangements.

### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

**Related party transactions**

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

**Post balance sheet events**

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

**Specific representations:**

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

Signed on behalf of Shropshire Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 20 September 2011.

Signed

Corporate Head of Finance and Commerce

Date

20 September 2011

## Appendix 5 Action Plan

### Recommendations

#### Recommendation 1

The Audit Committee is invited to consider the impact of the unadjusted misstatements in Appendix 3. Management having given detailed consideration to these are not proposing to amend the financial statements. If you concur with management and decide not to adjust for these, please set out the reasons for not amending the errors in the representation letter

<b>Responsibility</b>	Audit Committee
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<b>Priority</b>	High
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<b>Date</b>	20 September 2011
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<b>Comments</b>	The letter of representation has been amended to reflect the adjusted mis-statement, including the reasons.
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#### Recommendation 2

Undertake a review of the sums payable under finance leases to ensure that the 2011/12 financial statements properly reflects the timing of the payments.

<b>Responsibility</b>	Corporate Head of Finance and Commerce
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<b>Priority</b>	Low
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<b>Date</b>	March 2012
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<b>Comments</b>	Further work will be undertaken in 2011/12 on the PFI model to identify the timing of the payments referred to under finance lease liability within the Balance Sheet. Once established, this will be reflected in the 2011/12 financial statements.
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**Recommendation 3**

The Council must ensure that the establishment lists are circulated consistently to appropriate managers and reviewed upon their return to confirm the accuracy of payroll records.

<b>Responsibility</b>	Corporate Head of Finance and Commerce
<b>Priority</b>	Medium
<b>Date</b>	September 2011

<b>Comments</b>	The Council has recently updated the establishment lists within Payroll to reflect the New Operating Model. Establishment lists have therefore been circulated to managers to check accuracy and return accordingly. Establishments lists are made available to managers through the MyTeam functionality within the system, however further work is required with this system to ensure that an appropriate audit trail is retained.
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**Recommendation 4**

The Council must closely monitor its financial position and take necessary action to ensure that financial stability is maintained.

<b>Responsibility</b>	Corporate Head of Finance and Commerce
<b>Priority</b>	High
<b>Date</b>	September 2011 and beyond

<b>Comments</b>	The Council considers monitoring the financial position a key priority, and will continue to undertake this consistently along with taking any necessary action as and when appropriate.
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**Recommendation 5**

The Council must continue to monitor its key performance indicators as these will inform Members of any decline in the major service areas in the future.

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<b>Responsibility</b>	Corporate Head of Business Improvement
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<b>Priority</b>	High
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<b>Date</b>	September 2011
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<b>Comments</b>	The Council recognises the importance of monitoring key performance indicators, and will continue to do so into the future.
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## Appendix 6 – Glossary

### **Annual governance statement**

A statement of internal control prepared by an audited body and published with the financial statements.

### **Audit closure certificate**

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

### **Audit opinion**

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

### **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## Materiality and significance

The Auditing Practices Board (APB) defines this concept as 'an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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



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