

# Annual Audit Letter

Shropshire Council

Audit 2010/11



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**Traffic light explanation**



Red ■ Amber ◆ Green ●

# Key messages

**This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

**I have included only one significant recommendation in this report. The Council has accepted this recommendation.**

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

## Overview

Since the October 2010 Comprehensive Spending Review (CSR), many councils across the country have faced significant financial pressures. Your most recent forecast is that the Council needs to achieve savings of £78.5 million over a four-year period, of which £32.3 million was planned for 2011/12. Good progress has been made in meeting this target for 2011/12 with £15.7 million being achieved by 31 August 2011. However, there remains £0.9 million of identified savings which are unlikely to be achieved in the financial year because of the time required for the savings to come to fruition and the creation of risks to service disruption and loss of jobs. The remaining net savings targets have been set of £22.8 million in 2012/13, £15.4 million in 2013/14 and £8 million in 2014/15.

Against this background, the Council has responded in a positive manner. You have introduced your New Operating Model aimed at protecting frontline services while achieving the necessary efficiency savings. You have faced difficult decisions around school closures, changes to staff terms and conditions, redundancies and reductions in pay. For the first six months of 2011/12 you have reported that 71 per cent of outcomes measures were within or above 10 per cent of the standards set. However, you have also recognised the challenges faced in a small number of service areas.

The overall impact on the General Fund balance is that it is projected you will only be able to hold the balance at the minimum level you deem prudent for 2011/12 and 2012/13 (around £3-4 million). However, in 2013/14 you are expecting to over achieve your savings target and be able to bring them back to your risk assessed preferred level of £13 million. Until this is achieved it places the Council at risk of being unable to uphold its financial resilience and could threaten the achievement of planned savings in future years. This is a difficult, but manageable, position and it is important that Members continue to closely watch progress, not only on performance against savings targets, but also on the medium term financial stability of the Council.



## **Audit opinion and financial statements**

I issued unqualified opinions on your financial statements on 30 September 2011 and those of the Pension Fund on 15 September 2011. I also issued my responses to objections and questions previously raised by local government electors in respect of the 2007/08, 2008/09 and 2009/10 financial years. My Certificate was issued for each of these years on 30 September 2011 and this formally closes the audits for each of those years.

## **Value for money**

I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. As a result of my work I was able to issue an unqualified opinion. The performance reflects the hard work of officers and members in preserving the effectiveness of services during this difficult period.

# Current and future challenges

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Local Government continues to face significant financial pressures. The Transformation Programme is a key part of the Council's plans to meet the challenges faced. It is an ambitious programme that will require strong governance arrangements. The Council's Medium Term Financial Plan (MTFP) includes plans for sharing service delivery with other local authorities, voluntary and community based groups and the private sector. It is important that careful consideration is given to legal, procurement and regulatory requirements while managing the uncertainties for staff and service users.

Economic downturn and pressure on the public sector

Local Government has entered a period of financial uncertainty. Central government support to unitary councils has fallen by around 12 per cent in 2011/12, which is only the first of four years of cuts in government funding. Almost 60 per cent of the total planned reduction in DCLG funding to local authorities is yet to come between 2012/13 and 2014/15. Savings plans on existing arrangements alone would not be sufficient to meet this challenge. Councils are having to fundamentally review their methods of service delivery in every area to identify savings which will retain or improve customer service for the tax payer.

You are committed to protecting frontline services. Your Transformation Programme is a key part of the Council's plans to meet the challenges faced. This will see changes to service delivery and will include monitoring of organisational performance focusing on new Council priorities. The period through into early 2012/13 will be key in achieving a successful outcome to the process. It is an ambitious programme that will require strong governance arrangements. It is important to ensure that all risks are managed and addressed and that staff are properly engaged to bring about the desired successful transformation.

The latest estimate of redundancy costs is £6.7 million and the Council has received authority to capitalise the statutory element of the redundancy payment providing it exceeds £3.2 million. Any extra costs of redundancy will impact upon the revenue position of the Council.

<p>Shared services</p>	<p>The Council's Medium Term Financial Plan (MTFP) includes plans to save £2 million through sharing service delivery. Initially this will be through internal changes and then working with other local authorities, voluntary and community based groups and the private sector. It is expected that the majority of the external changes and savings will arise in 2012/13. The focus is initially to be on areas such as Finance, Human Resources, ICT services and Facilities Management with areas such as Legal, Print and Property Services following. The Council recognises the uncertainty that these proposals may create for staff and service users. Plans exist to involve staff in the change process and a Business Assurance Group will seek to involve service users in developing the proposals. It is important that careful consideration is given to legal, procurement and regulatory requirements as well as managing the uncertainties for staff and service users.</p>
<p>Treasury management</p>	<p>The Council has a claim in place for the £1 million deposit placed by Bridgnorth District Council with the Icelandic bank, Landsbanki. The latest indication is the Council expects to receive 95 per cent of the principal sum.</p>
<p>National initiatives</p>	<p>In September 2011 the Government published:</p> <ul style="list-style-type: none"> <li>■ the Code of Recommended Practice for Local Authorities on Data Transparency; and,</li> <li>■ Best Value Statutory Guidance.</li> </ul> <p>The Transparency Code sets out central Government's views on the key principles for authorities in creating greater transparency and enhancing accountability through the publication of data. It is central Government's view that greater transparency of data is at the heart of enabling the public to hold politicians and public bodies to account. Publication of data should also be used to open new markets for local business, the voluntary and community sectors and social enterprises to run services or manage public assets. The Council already has a web page on its internet site related to Open Data, and has moved quickly to meet all new Government requirements, but will need to keep it under review as the updated guidance contains additional requirements for public data.</p> <p>The streamlined Best Value Statutory Guidance sets out Government's expectations of the way authorities should work with voluntary and community groups and small businesses when facing difficult funding decisions. The guidance, taken together with measures such as Community Right to Challenge and the Localism Bill, aims to promote authority leadership in providing a level playing field for all, including local, voluntary and community organisations. Working with partnerships across the county has been a strong feature of the Council's arrangements in the past and the new Localism Bill will place even greater focus on the need for effective partnership working. The Council already has effective links with the Voluntary and Community Sector (VCS) through the Shropshire VCS Assembly and is in the process of improving this important partnership working. The intention is to have a more resilient and self-sufficient voluntary and community sector which will help in promoting stronger communities across Shropshire.</p>

# Financial statements and annual governance statement

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The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave unqualified opinions on the Council's 2010/11 financial statements on 30 September 2011 and those on the Pension Fund on 15 September 2011.

## Overall conclusion from the audit

My detailed conclusions from my audit of the Council's 2010/11 financial statements and the Pension Fund Annual Report are included in my Annual Governance Reports. I presented these to the Audit Committee on 20 September 2011 and the Pensions Committee on 15 September 2011. I have agreed a detailed action plan for the recommendations made. I do not therefore make any recommendations in this report but summarise my findings for information.

I would like to recognise the hard work of the Finance team in ensuring that your financial statements were produced to a good standard and to the statutory deadlines. I recognise that the budgetary pressures faced by the Council have put additional pressures on all areas of the Council, including Finance. This, combined with the adoption of International Financial Reporting Standards (IFRS), means that in common with 2009/10 (the first following local government reorganisation), there were several areas within the financial statements where amendments were required. These primarily related to qualitative issues such as the accuracy of the supporting notes to the financial statements. The fact that there were no material or significant errors or omissions is testimony to the efforts made by your finance team.

## Audit Opinions

### Shropshire Council

I issued an unqualified opinion on your financial statements on 30 September 2011. In my opinion the accounts gave a true and fair view of the financial position of the Council as at 31 March 2011 and its income and expenditure for the year then ended. I also issued my responses to objections and questions previously raised by local government electors in respect of the 2007/08, 2008/09 and 2009/10 financial years. My Certificate was issued for each of these years on 30 September 2011 and this formally closes the audits for each of those years.

### Shropshire County Pension Fund

I am required to issue an opinion on the Pension Fund accounts, separately from the Shropshire Council opinion. I issued an unqualified opinion on 15 September 2011. I am also required to provide the Auditors of other bodies who contribute to the Pension Fund with assurance that the figures in the other bodies' accounts in respect of the pension fund are fairly stated. I was able to give such assurance.

## International Financial Reporting Standards

The Council had to prepare financial statements using the International Financial Reporting Standards (IFRS) for the first time in 2010/11. This required a considerable level of work including the restatement of the balance sheets for 2008/09 and 2009/10 to support the comparator disclosures. There were also substantial changes to the layout and structure of the financial statements including the number of disclosures required and the accounting policies

I undertook a review of the changes made to the values reported in the 2009/10 financial statements for the movement towards IFRS based accounts. My work confirmed that the Council met the requirements for the transfer and that the revised values had been properly reported in the 2010/11 financial statements. Your overall approach ensured that you were in a position to meet the agreed timescales, which was a better position than many councils nationally who had difficulties with the introduction of IFRS.

## Whole of Government Accounts

The whole of Government Accounts (WGA) cover about 1,300 bodies. They aim to provide commercial style accounts for the public sector and are prepared by the Treasury. To support these accounts, I am required to submit a consolidation pack which summarises the Council's financial statements in a consistent way with all other local government bodies. I submitted this consolidation pack with a statement confirming that it was consistent with the Council's audited financial statements on 29 September 2011.



## Issues arising from the audit

There were no significant issues arising from the audit. The draft financial statements were given to me on the agreed date. Several non-material amendments were made to the financial statements, mostly to reflect classification issues. There was one non-trivial error of £0.2 million that was not adjusted for in the 2010/11 financial statements.

There were several amendments required to disclosure notes such as officers' emoluments and the Waste services PFI scheme. The Balance Sheet descriptions reported in the financial statements did not follow the requirements of IFRS. For example, Property, Plant and Equipment assets (PPE) were described as Fixed Assets, Inventories were described as Stocks and Short-term debtors were called Debtors. The Council has agreed the new descriptions will be included in the 2011/12 financial statements.

## The governance framework

During the audit, I have not identified any material weaknesses in the internal control environment. However, several changes are being made to the payroll system. As payroll is the largest item of expenditure within the Council's accounts, it is important that internal controls are upheld to ensure that payment is only made to actual employees. I will assess the impact of the changes on 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 work consistently. It is important that this control works in future years as staffing changes arise as the Council goes through its transformation agenda.

The Council makes an annual governance statement within its financial statements in line with the 'Delivering Good Governance in Local Government' guidance. I reviewed the issues you raised as significant governance issues and consider that they were consistent with my understanding of the Council. I have also reviewed the Council's risk management arrangements and consider these to be adequate.

## Treasury management

During 2010/11, the continuing low interest rate environment continued to impact on the Council. The Council maintained its prudent approach to investments to ensure an appropriate balance was kept between investment returns and security of funds. The internal treasury team outperformed their targets, although there was a shortfall of £0.4 million compared to budget for the year. This was offset against savings of £1.9 million on interest payments on long-term borrowings which were not required in 2010/11.

## Capital programme

The capital programme for 2010/11 reported spending of £79.5 million compared to the budget of £86 million. The majority of the variance was because of delays in expenditure being incurred as planned. This is carried forward into the 2011/12 capital programme which has a budget of £81.5 million. At month 5, overall expenditure is projected to be £82.7 million which is a projected overspend of £1.2m for the year. The largest element of this is for

Oswestry Leisure Centre where there is a projected overspend of up to £0.5 million on the scheme. Members will need to monitor progress against all capital schemes to ensure that contracts and related expenditure are properly controlled.

## Level of reserves

The Council's current reserves policy is to maintain general fund balances of between 0.5 per cent and 2 per cent of the gross revenue budget. At 31 March 2011, the General Fund balances stood at £3.907 million. This represents 0.6 per cent of the gross revenue budget and is close to the minimum level set by the Council. Financial pressures have led you to project that you will only be able to hold the balance at the minimum level you deem prudent for 2011/12 and 2012/13 (around £3-4 million). However, in 2013/14 you are expecting to over achieve your savings target and be able to bring them back to your risk assessed preferred level of £13 million. Until this is achieved it places the Council at risk of being unable to maintain its financial resilience and could threaten the achievement of planned savings in future years. This is a difficult position and it is important that Members closely monitor progress, not only on performance against savings targets, but also on the medium term financial stability of the Council, given the degree of uncertainty over the level of future funding available.

## Pensions liability

The Actuarial valuation of the Shropshire County Pension Fund was carried out as at 31 March 2010 and confirmed the fund's assets represented 81 per cent of the Funding Target. This is one of the highest funding levels of local government pension schemes. During 2010/11, the fund benefited from strong investment returns and its value rose to £1 billion, an 8 per cent increase which outperformed its benchmark by 1.2 per cent.

The liability at 31 March 2011 was £234 million, which has fallen from the level of £325 million at 31 March 2010. This is mainly due to the changes to public service pensions announced by the Chancellor in June 2010. This saw pensions up rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). The overall good governance arrangements of the scheme should continue to help the Council to meet the future challenges it may face in respect of public sector pensions.

## Certification of grant claims and returns

I am in the process of finalising my audit of grant claims relating to the 2010/11 financial year. Claims were submitted for audit by the Council within the agreed deadlines. I have now completed the audit of the following claims, which were unqualified and with limited amendments being made to the values recorded in the claims:

- Pooling of Housing Capital Receipts;
- NNDR3 Return;
- HRA Subsidy Base Data Return 12/13;
- Disabled Facilities Grant;
- Sure Start grant; and
- Advantage West Midlands (AWM) returns.

The other claims on which the audit has yet to be completed are:

- Housing Benefit and Council Tax Benefit;
- Teachers' Pensions return; and
- HRA Subsidy.

I do not expect any significant issues to arise on these claims.

## Questions and objections from electors

I have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to my attention and for it to be brought to the notice of the public. There were no such matters in 2010/11. In addition, I have other responsibilities under the 1998 Act, including investigating questions or objections from electors on the Council's accounts. During 2010/11 financial year, I have concluded reviews which have arisen from questions from the public in respect of:

- validity of expenditure on the waste management contract which related to a legal case at the national level;
- tendering for housing services in which a tendering process had to be conducted again;
- Enterprise House, Bishops Castle in relation to the length of time it took to complete reinstatement works on certain units at Enterprise House in Bishop's 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 on the financial statements or upon my other statutory duties and where necessary I have made appropriate recommendations. I am currently in the process of reviewing two additional items on:

- care assessments; and
- Quantum Leap.

The outcome of my work will be reported to the Chief Executive once I have completed my reviews.

## National Fraud Initiative

The Council participates in the National Fraud Initiative (NFI). This is a national exercise that matches electronic data within the and between audited bodies to prevent and detect fraud, including police authorities, local probation boards, fire and rescue authorities as well as local councils.

I reviewed the Council's progress in relation to investigating the matches identified and found that good progress had been made. The National Fraud Initiative data returns have been submitted in line with expected timescales. The Council continues to investigate the information provided by the exercise. As a result of this, the position at 31 October 2011 shows a total savings of £96,038 (2009/10 £48,718) of which £7,374 relates to pension payments, £7,355 on duplicate invoices and £81,309 relates to housing benefit payments.

## Recommendation

**R1** The Council continues to closely monitor and manage its financial position and take necessary action to ensure that financial stability is maintained.

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# Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

## Value for money criteria and key messages

Criterion	Key messages
<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's arrangements for managing its finances are strong and will be a key part of the ability of the Council to secure a stable position for the foreseeable future. As part of the process, 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.</p> <p>The Council forecast there was a need to achieve savings of £78.5 million over a four-year period, of which £32.3 million was planned for 2011/12. Good progress has been made in meeting this target for 2011/12 with £15.7 million being achieved by 31 August 2011.</p> <p>As part of the preparation of the Council's Budget Strategy for the period from 2011/12 to 2013/14, there was an extensive public consultation process which:</p> <ul style="list-style-type: none"><li>ensured that communities understood the scale of the likely cuts in government funding faced by the Council over the next few years, and the consequent need for major changes in the method of service delivery across the Council; and</li></ul>



Criterion	Key messages
	<p>■ sought the views of residents on their priorities for services which informed decisions on spending priorities. The Council has historically had a strong track record in achieving efficiency savings, but it is recognised the current financial position requires savings beyond those that could be achieved solely through efficiency. Therefore the MTFP was agreed in February 2011 which determined the approach to managing finances over the period 2011/12 to 2014/15. This is a continuing process and a further review of the financial strategy was conducted in September 2011. Members were given an update on the planned savings for 2012/13, as well as receiving information on developing longer term financial strategies through to 2020/21.</p> <p>The Council continues to be active in driving through the changes necessary to bring long-term stability. Against this background, redundancies are expected to cost £6.7m in 2011/12 and pressures are being placed on usable reserves. This is a difficult period for the Council and requires strong financial management and decision making. Members will play a key part in this and it is important the financial position is closely monitored and that appropriate levels of reserves are held to enable the Council to come through this period of uncertainty.</p>
<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 redesign of services will run into 2013/14 to secure the benefits required. One of the aims is to improve the effectiveness of services valued by local people and to provide improved Value for Money (VFM).</p> <p>Working with partnerships across the county has been a strong feature of the Council's arrangements in the past and the new Localism Bill will place even greater focus on the need for effective partnership working. The Council already has effective links with the Voluntary and Community Sector (VCS) through the Shropshire VCS Assembly and is in the process of improving this important partnership working. The intention is to have a more resilient and self-sufficient voluntary and community sector which will help in promoting stronger communities across Shropshire.</p> <p>The Council in seeking to share services with organisations has made plans for areas such as Finance, Human Resources, ICT and Facilities Management to become part of the first tranche of a shared service approach. This is part of the MTFP and it is hoped to achieve savings of £2m through to 2013/14. Improved procurement is also a key area and the Council has already achieved additional savings through its recently agreed joint highways contract.</p>

**Criterion****Key messages**

There have been difficult decisions around school closures, changes to staff terms and conditions, redundancies and reductions in pay. However, the Council recognises that public demand for services is likely to continue growing and that changes are necessary to ensure improvements in productivity and performance are achieved through a more productive, highly skilled and flexible 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 in improving performance. I have also considered information arising during 2011/12. At this stage of the year I have not identified any significant decline 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.

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# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and the Head of Finance and Commerce. I will present this letter at the Audit Committee in February 2012 and will ensure copies are available to all members.

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

Report	Date issued
Audit Plan	February 2011
Annual Governance Report	September 2011
Opinion on financial statements	September 2011
Value for Money	September 2011
Annual Audit Letter	November 2011

The Council has taken a positive and productive approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Grant Patterson  
District Auditor  
November 2011

# Appendix 1 – Fees

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	Actual	Proposed	Variance
Audit fee	£328,500	£328,500	£0
Certification of claims and returns	Work is continuing	£75,590	To be determined
<b>Total</b>	<b>£328,500</b>	<b>£404,090</b>	<b>To be determined</b>

The Audit Commission is paying a rebate of £19,709 for 2010/11.

# Appendix 2 – Glossary

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## **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

## **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.

## **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.

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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