

Annual governance report

Shropshire Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit which 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.

Financial statements

My audit of Shropshire Council's Annual Statement of Accounts for the year ended 31 March 2012 is substantially complete. Subject to the satisfactory completion of the outstanding audit procedures around your Private Finance Initiatives (PFI) and Group Accounts, I can confirm that I propose to issue an audit report including an unqualified opinion on your financial statements.

The overall quality of your financial statements is generally good. I have not identified any material misstatements. I have identified an unadjusted error in respect of Long Term Debtors of £0.99m. This is detailed in Appendix 2 of this report to assist you with fulfilling your governance responsibilities. If you concur with management and decide not to adjust, please tell me why in the representation letter which is detailed in Appendix 3.

In my Annual Governance Report for 2010/11, I referred to an uncertainty within the accounting of the deferred liabilities balance which included sums due within 12 months of the balance sheet date which would normally be disclosed within current liabilities. Officers undertook a review of the information and were unable to identify the element of the £21.867m balance which would fall due within 12 months of 31 March 2012. The calculation in the PFI model is complex and it remains difficult to accurately estimate a figure for current liabilities. Uncertainty therefore remains within this figure. I am satisfied that this is not material. I will be making this report available to your new incoming auditor to determine whether to follow this up in 2012/13.

During the audit, I have not identified any material weaknesses in the internal control environment.

Value for money (VFM)

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 continued to undertake detailed work during 2011/12 to ensure financial stability and to continue to deliver front-line services. Towards the end of 2011, the Council was forecasting a £1.95m overspend, however various management actions were taken including a spending freeze which ensured that the outturn for 2011/12 resulted in an under spend of £2.7m. The Revenue Monitoring report at period 4 shows that the forecast overspend for the 2012/13 year is £4.29m. This is primarily due to the Assessment and Eligibility service area which is experiencing cost pressures on the provision of long and short term care support. Whilst this is only 0.66% of your gross budget it will be important for continuing management action in 2012/13 in order to ensure financial stability is maintained.

The Council has reviewed 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 2012/13 the minimum balance required is £3.27m and the latest Revenue Monitoring report details a forecast balance at 31 March 2013 of £1.451m. Therefore Members will need to monitor the effectiveness of the Council's actions during the year if the desired level of reserves is to be preserved.

The ongoing Transformation Programme continues to bring about a redesign of services which are 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. Shared services arrangements are a major development in 2012/13 and the Council had envisaged making a saving of £2m in total out of the arrangement. However this is now forecast to rise to savings of £8m over the next four years (£2m a year) from 2012/13. Additional evidence of the Council's proactive approach is the plans to establish a wholly owned company as a mechanism for providing services and accessing other sources of funding. The overall aim is to develop an ability to respond quickly to changing local needs and preferences with increased involvement of various bodies such as those in the voluntary sector.

Certificate

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

I expect to complete the outstanding work and report my findings to management by 30 September 2012. I plan to issue my certificate by 30 September 2012.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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 am aware of the following relationships that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat.

Table 1: **Threats and safeguards**

Threat	Safeguard
The Father-in-law of Kate; a member of the audit team is employed by the Council in the Probation Substance Misuse Team as a Drug Worker. A Cousin of the same member of staff has a PA position at Shropshire Council - Safeguarding team.	I have undertaken a risk assessment and concluded that whilst the relationships do not constitute a significant threat in order to address any perceptions of a possible conflict the member of staff has not undertaken any work relating to Social Care assessments or payroll.

During the year the Audit Commission's Audit Practice undertook non-audit work for the Authority for a fee of £2,000. The Audit Commission reviewed the governance arrangements for Shropshire LINK.

I ask the Audit Committee to:

- take note of the unadjusted error to the financial statements included in this report (appendix 2);
- approve the letter of representation (appendix 3), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 5).

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 continue to put additional pressures on all areas of the Council, including Finance. 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.

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 audit report.

Significant risks and my findings

I reported to you in my 2011/12 Audit Strategy the significant risks that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against each of these risks.

Table 2: **Significant Risks and findings**

Risk	Finding
Heritage Assets The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. The Council has already started to	I evaluated the arrangements in place to recognise and value heritage assets. I performed detailed procedures relating to classification, verification, deeds testing and disclosure requirements to ensure your accounting for heritage assets was in accordance with FRS 30 and the Code and confirming that the financial statements are

Risk

identify any assets captured by this definition. However the valuation of these may be more difficult.

A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. For Shropshire Council this is likely to include your Museum Service and archives.

Finding

fairly stated. My testing has not identified any significant issues to bring to your attention.

Redundancy costs

The Council's estimated redundancy costs for 2011/12 are forecast to be £8.102m. There is an associated capitalisation order of £3.2m which will reduce the impact of this on the Revenue account. This could lead to a material redundancy provision in the financial statements that will need to be calculated in line with the statutory framework.

My audit work reviewed the redundancy calculations and found no areas of non-compliance with the statutory requirements. My testing has not identified any significant issues to bring to your attention

Specific risks and my findings

I reported to you in my 2011/12 Audit Strategy the specific risks that I identified relevant to my audit of your financial statements. In Table 3 I report to you my findings against each of these risks.

Table 3: **Specific risks and findings**

Risk	Audit response
Pension Liability International Accounting Standard (IAS) 19 Employee Benefits applies to	My audit work reviewed the arrangements to check that information provided to the Actuary in relation to redundancies accurately reflected

Risk

all Local Authorities. Auditors need assurance on the entries required by IAS 19. Under Regulation 36 of the LGPS Administration Regulations 2008, the pension fund is subject to an independent triennial valuation. Between valuations the assets & liabilities for each employer are estimated using a roll forward approach. It is important that matters of significance affecting the actuarial valuation (e.g. major redundancy programmes) are reported to the Actuary.

Accounting for Schools

Under the Education Act 1996, local authorities are responsible for securing sufficient schools within their area. The different types of school are:

- Community Schools;
- Voluntary control / aided;
- Foundation; and
- Academies

The differences in those arrangements have implications for the accounting treatment within the financial statements.

HRA self financing

As part of the Localism Bill 2010, local authority housing finance will be replaced by a self-financing model from 1 April 2012. This replaces the Housing Revenue Account Subsidy (HRAS) system operated under section 80 of the Local Government and Housing Act (LGHA) 1989. This will be implemented through a one-off settlement payment to or from the government, to adjust the housing debt of local housing authorities and leave each with a level of HRA debt considered affordable from rental income.

Audit response

the position at Shropshire Council. My testing has not identified any issues to bring to your attention.

I reviewed the status of the various types of schools to evaluate whether they were accounted for correctly within the financial statements. My testing has not identified any issues to bring to your attention.

I reviewed the accounting arrangements to check whether the Council recognised the payment to central government as specified in the settlement payment determination and accounted for the transaction correctly in line with proper practices. The transaction was appropriately recognised as an exceptional item and my testing has not identified any issues to bring to your attention.

Risk

PFI schemes

The Council has two PFI schemes which are subject to complex accounting arrangements.

Deferred Liabilities

My 2010/11 audit 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.

Group Financial Statements

There are potential changes to the group components in 2011/12 in the form of a disposal of a component. Due to the uncertainty of the timing of the event, there is a possibility that the disposal will need to be properly reflected in the group financial statements.

Audit response

I have undertaken audit work in the past to provide me with assurance over the models and assumptions used to support disclosures in your financial statements. I have examined the inputs to the PFI models to ensure figures are truly and fairly stated in the financial statements. My audit work in this area is still ongoing. Currently the only issue identified that I need to bring to you attention is the deferred liabilities disclosure highlighted below and in Table 4.

I revisited this area in 2011/12 to check whether the value for deferred liabilities was properly disclosed within the financial statements. My testing identified that there is still an uncertainty in 2011/12. Please refer to Table 4 for details.

I will undertake a review of the group financial statements to ensure that they properly reflect the position of the group at the balance sheet date. My audit work in this area is still ongoing.

Corrected errors

There were a number of adjustments and presentational issues which 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.

Uncorrected errors

Under auditing standards I am also required to bring to the attention of the Audit Committee, 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 would result in changes to the Long Term Debtors balance of £0.99m. This is detailed in Appendix

2 of this report to assist you with fulfilling your governance responsibilities. If you concur with management and decide not to adjust, please tell me why in the representation letter which is detailed in Appendix 3.

Internal control environment

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any significant weaknesses in your internal controls that are relevant to preparing the financial statements.

Quality of your financial statements

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process. I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. Table 4 summarises the matters I wish to bring to your attention:

Table 4: **Accounting practices, policies, estimates and financial statement disclosures**

Issue	Findings and recommendations
<p>Quality of working papers</p> <p>There remain opportunities to strengthen the quality of the working papers supplied for audit.</p>	<p>A number of entries in the financial statements were solely supported by a ledger print and some of the spreadsheets were difficult to navigate around. I recognise that this is a two way process and I have agreed with officers to hold a session in October to work together in clarifying our requirements. This will hopefully ensure a more efficient audit in future.</p>
<p>Deferred Liabilities (Note 42)</p> <p>The balance of £21.867m primarily relates to the finance lease liabilities arising from the two PFI</p>	<p>In my Annual Governance Report for 2010/11, I referred to an uncertainty within the accounting of the deferred liabilities balance which included sums due within 12 months of the balance sheet date which would normally be disclosed within current liabilities. Officers</p>

Issue	Findings and recommendations
<p>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>undertook a review of the information and were unable to identify the element of the £21.867m balance which would fall due within 12 months of 31 March 2012. The calculation in the PFI model is complex and it remains difficult to accurately estimate a figure for current liabilities. Therefore there remains an uncertainty within this figure. I am satisfied that this is not material. I will be making this report available to your new incoming auditor to determine whether to follow this up in 2012/13.</p>
<p>Impairment of HRA dwellings</p> <p>The accounting policy for determining the price impairment for council dwellings is to use CLG house price data at December (Q4) each year. This is updated as appropriate for the reported March (Q1) data.</p>	<p>The CLG data at December 2011 was the latest set of data available for preparation of the financial statements. This remains the same at 4 September 2012. Therefore the Council has relied upon data from Office for National Statistics (ONS) in arriving at a nil impairment value. I have formed a view that this is a reasonable basis upon which the impairment can be determined. In addition, I compared the regional price change as reported by the Audit Commission appointed valuer with the nil change and concluded that this also indicated that no impairment charge was reasonable. I have requested that additional information is detailed within the relevant accounting policy and in Note 4 disclosure within the financial statements.</p>
<p>Sales ledger debtor arrears</p> <p>The Council sales ledger at 31 March 2012 reported arrears of £11.592m of which £5.065m was over four months old at that date.</p>	<p>A review of the aged debt report at 27 July 2012 identified that arrears had reduced to £11.320m, although arrears over four months were £5.435m. This shows that £6.157m of year end arrears were collected in the four months following 31 March 2012. This is good progress, although there remains the need for ongoing chasing of older arrears.</p>

Other matters

I also dealt with questions from the public in respect of:

- Quantum Leap;
- Care assessments;
- Expenditure on the Music Hall;
- Small holding sale;
- Taxi licensing; and
- cost of the incinerator.

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

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 20 September 2012 I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 30 September 2012.

Recommendation

R1 The Council should undertake a review of the sums payable in deferred liabilities to ensure that the 2012/13 financial statements properly reflects the timing of the payments.

Value for money

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

I assess your arrangements against the two criteria specified by the Audit Commission. In my 2011/12 Audit Strategy I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 5: Value for money conclusion criteria and my findings

Criteria	Risk	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</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 faced significant financial pressures which have seen the general fund balance fall below its specified minimum levels required to safeguard it against future unexpected spending pressures.</p>	<p>The Council has continued to undertake detailed work during 2011/12 to ensure financial stability and to continue to deliver front-line services. Towards the end of 2011, the Council was forecasting a £1.95m overspend, however various management actions were taken including a spending freeze which ensured that the outturn for 2011/12 resulted in an underspend of £2.7m. Ongoing action will be required to be taken during 2012/13 as the Revenue Monitoring report at period 4 shows that the forecast overspend for the year is £4.29m. This is primarily due to the Assessment and Eligibility service area which is experiencing</p>

Criteria	Risk	Findings
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</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>The Council's MTFP includes plans to save £2 million through sharing service delivery. This will create uncertainty for staff and service users. There is a risk that the process of transformation will impact on the delivery of services.</p>	<p>cost pressures on the provision of long and short term care support.</p> <p>The Council has reviewed 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 2012/13 the minimum balance required is £3.27m and the latest Revenue Monitoring report details a forecast balance at 31 March 2013 of £1.451m.</p> <p>The ongoing Transformation Programme continues to bring about a redesign of services which are 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. As a result of the changes, performance was expected to fall in 2011/12 however a report to Cabinet in June 2012 identified that performance against the nine key Shropshire outcomes has been generally good. There were a number of individual indicators at the service level which did not meet the target outturn, although the majority were within 5% of their target level. However, there were two indicators in Education and three in Social Care which saw a fall in performance compared to 2010/11.</p>

Criteria	Risk	Findings
		<p>The Council has committed action plans to aid the improvement in these areas. Ongoing progress is key to driving the Transformation Programme:</p> <ul style="list-style-type: none"> • Shared services arrangements are a major development in 2012/13 and the Council had envisaged making a saving of £2m in total out of the arrangement. However this is now forecast to rise to savings of £8m over the next four years (£2m a year) from 2012/13; • Additional evidence of the Council's proactive approach is plans to establish a wholly owned company as a mechanism for providing services and accessing other sources of funding. The overall aim is to develop an ability to respond quickly to changing local needs and preferences with increased involvement of various bodies such as those in the voluntary sector.

Recommendation
<p>R2 The Council should continue to closely monitor its financial position and take necessary action to ensure that financial stability is maintained.</p>

Fees

I reported my planned audit fee in the 2011/12 Audit Strategy.

I will complete the audit within the planned fee.

Table 6: Fees

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	295,650	295,650	295,650
Claims and returns	n/a	66,000	To be confirmed
Non audit fees – Review of governance arrangements for Shropshire LINK	n/a	0	2,000
Total		295,650	297,650

The Audit Commission has paid a rebate of £23,652 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £271,998.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL

Opinion on the financial statements

I have audited the financial statements of Shropshire Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial 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 Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework applied to their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 & Commerce and auditor

As explained more fully in the Statement of the Chief Financial Officer’s Responsibilities, the Corporate Head of Finance & Commerce is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Corporate Head of Finance & Commerce, and the overall presentation of the

financial statements. In addition, I read all the financial and non-financial 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 financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Shropshire Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 & Commerce and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Corporate Head of Finance & Commerce is responsible for the preparation of the Authority and Group's Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Corporate Head of Finance & Commerce and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the annual report 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 financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012 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 2011/12.

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 financial statements are prepared is consistent with the financial statements.

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

Respective responsibilities of the Authority and the auditor

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.

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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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 2011, 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 2012.

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 2011, 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 ended 31 March 2012.

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Grant Patterson
District Auditor
Audit Commission
Opus House
Priestley Court
Staffordshire Technology Park
Beaconside
Stafford
ST18 0LQ

Appendix 2 – Uncorrected misstatements

I identified the following errors during the audit which management have not addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Long term debtors	The Authority has not applied Code of Practice requirements re valuation of long term loans.				
	Long term Debtors			99	
	Deferred capital receipts				99

		Statement of comprehensive income and expenditure		Movement in Reserves Statement	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Gain or loss on the disposal of fixed assets	Capital receipts reserve			99	
	Gain or loss on disposal of fixed assets		99		

Appendix 3 – Draft letter of management representation

Shropshire Council - Audit for the year ended 31 March 2012

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 Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

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

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;
- 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; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Authority to adjust the accounting estimate and related disclosures included in the financial statements.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Shropshire Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on 19 September 2012

Rachel Musson

Corporate Head of Finance & Commerce

19 September 2012

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 5 – Action plan

Recommendations

Recommendation 1

Undertake a review of the sums payable in deferred liabilities to ensure that the 2012/13 financial statements properly reflects the timing of the payments

Responsibility	Corporate Head of Finance & Commerce
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Priority	Low
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Date	
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Comments	
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Recommendation 2

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

Responsibility	Corporate Head of Finance & Commerce
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Priority	High
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Date	
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Comments	
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- any director/member or officer in their individual capacity; or
- any third party.

