

# Annual Audit Letter

Shropshire Council

Audit 2011/12



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**Traffic light explanation**  
Red  Amber  Green 

# Key messages

**This report summarises the findings from my 2011/12 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.**

Key audit risk	My findings	Conclusion
Unqualified audit opinion	I issued an unqualified opinion on the Council's financial statements on 27 September 2012.	●
Proper arrangements to secure value for money	I issued an unqualified conclusion on the 27 September 2012 as my work did not identify and matters which would lead me to believe the Council did not have proper arrangements in place for securing economy, efficiency and effectiveness.	●

## Overview

For 2011/12 the Council's revised net revenue budget was £224.891 million and the actual spend was £2.709 million less than budgeted. This was mainly because the Council introduced additional budgetary control procedures and spending controls in response to a significant potential overspend identified during 2011/12. The better than anticipated outturn was noticeable in areas such as Safeguarding, Learning & Skills and corporate budgets.

The Council continues to face significant financial pressures in 2012/13. The Revenue Monitoring report at period 5 shows that the forecast overspend for the 2012/13 year is £2.986 million. 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 0.46 per cent of your gross budget it will be important for continuing management action to be taken in 2012/13 in order to ensure financial stability is maintained.

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 per cent and 2 per cent of the gross revenue budget. For 2012/13 the minimum balance required is £3.27million and the latest Revenue Monitoring report details a forecast balance at 31 March 2013 to be £2.755 million at 31 March 2013 (£7.638 million at 31 March 2012), which is £0.515 million below the desired balance. 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 Council took a decision in May 2012 to implement a new strategic commissioning framework for all Council services and to create a new, wholly owned council company to deliver a range of services. This represents a fundamental part of the Council's approach to reducing the impact of further funding cuts on the scope and quality of essential local public services. A key consideration for 2013/14 onwards is therefore the financial impact of the Council's wholly owned company ip&e (Group) Ltd (ip&e).

You have set yourselves challenging timetables for the development of business plans and governance arrangements for ip&e. Following the departure of your Chief Executive you are currently running with a 'strong leader' model of governance and how the revised governance arrangements required under this model integrate with the successful transition to ip&e will need to be carefully considered. The Council should also ensure that its decision-making processes continue to be transparent and that it can clearly demonstrate how it has considered both the legal and value for money issues of the project.

### **Audit opinion and financial statements**

I provided an unqualified opinion on your financial statements as I considered them to be true and fair, and presented without material misstatement.

The overall quality of your financial statements is generally good. I have not identified any material misstatements. 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 £21.867 million 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.

### **Value for money**

I am required to satisfy myself that the Council has made proper arrangements for securing value for money. For 2011/12 the Audit Commission determined two criteria for me to consider:

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

On the basis of my work I am satisfied that in all significant respects Shropshire Council put in place proper arrangements to secure value for money in its use of resources for the year ending 31 March 2012.

# Current and future performance

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## Financial Performance and resilience

### 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 £85 million over a four-year period, an increase from the £78.5 million projected last year. Good progress has been made in meeting this target in 2011/12 with £30.778 million of the £32.303 million savings planned for 2011/12 being achieved. In 2012/13, there is a shortfall of identified savings of £4.064 million because of the time required for the savings to come to fruition. This shortfall is expected to be mainly offset by increased savings of £3.782 million identified in 2013/14. The 2013/14 net savings target has been set at £16.947 million, and there are additional estimated savings required of £8.003 million in 2014/15.

### 2011/12 and Current Year Performance

For 2011/12 the Council's revised net revenue budget was £224.891 million and the actual spend was £2.709 million less than budgeted. This was mainly because the Council introduced additional budgetary control procedures and spending controls in response to a significant potential overspend identified during 2011/12. The better than anticipated outturn was noticeable in areas such as Safeguarding, Learning & Skills and corporate budgets.

The Council has identified that the main area of overspend in 2012/13 is in Assessment and Eligibility where there is a forecast outturn overspend of £4.6 million for the year. New overspend pressures have been identified within Shared Services and Facilities Management but there are also expected compensatory underspends within Care & Wellbeing, Learning & Skills and Finance & Commerce during Period. Overall the 2012/13 projected outturn is currently estimated to show an overspend of £2.986 million.

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 the end of period five of 2012/13, the General Fund balance is expected to be £2.755 million at 31 March 2013 (£7.638 million at 31 March 2012), which is £0.515 million below the desired balance. A further net contribution of £5.6 million is anticipated during 2013/14 to increase balances. Improving your reserve levels is important as the authority moves into new funding mechanisms with increased levels of uncertainty and risk.

It is therefore important that action is taken to mitigate any potential overspends in 2012/13 and your management have introduced measures to mitigate the risk of endangering the medium term financial stability of the Council. This is a significant challenge for the Council and it is one which could threaten the achievement of planned savings in future years. This is a difficult position and it is important that Members continue to closely monitor progress, not only on performance against savings targets, but also on the medium term financial stability of the Council. I have made a

recommendation to this effect in my Annual Governance Report to your Audit Committee. This has been agreed and will be followed up through that forum and I have therefore not repeated it here but financial resilience is likely to be monitored closely by your incoming auditors.

## Looking forward

Beyond 2012/13, the Council's financial position remains very uncertain. The CSR 2010, although ostensibly a four year settlement actually only provided a fixed two year allocation of formula grant for local authorities for the periods 2011/12 and 2012/13. The CSR 2010 gave indications of how the overall level of funding for local authorities will change in the following two years, 2013/14 and 2014/15, and since then further adjustments have been announced as part of the 2011 budget and proposals under the Business Rates Retention funding model. You have identified a potential increase in the gap between resources and planned expenditure, which could increase your 2013/14 savings target by £9.6 million as a result of service pressures, loss of grant and the establishment of a provision for losses on appeals. The Council will not have a clear picture of potential resources available until December when the draft settlement is announced. Following this, the final settlement, which may be significantly different to the draft settlement, is due to be released in February 2013. You have recognised that you will therefore need to prepare for late adjustments to the 2013/14 budget.

The Council took a decision in May 2012 to implement a new strategic commissioning framework for all Council services and to create a new, wholly owned council company to deliver a range of services represents a fundamental part of the Council's approach to reducing the impact of further funding cuts on the scope and quality of essential local public services. A key consideration for 2013/14 onwards is the financial impact of the Council's wholly owned company ip&e. In 2013/14 you are assuming that the transfer of four key services into ip&e will have a net nil effect on the Council's budget. You have recognised that this assumption will have implications for ip&e as the company will have to cover managerial costs and other overheads including any tax liabilities. In the short term the Council has approved a loan to ip&e for £0.5 million. In the later years, as more services transfer, it is envisaged that ip&e will generate resources to offset spending pressures on the services remaining with the Council and these will be built into future resource projections in your next Medium Term Financial Plan.

You have set yourselves challenging timetables for the development of business plans and governance arrangements for ip&e. Following the departure of your Chief Executive you are currently running with a 'strong leader' model of governance and how the revised governance arrangements required under this model integrate with the successful transition to the ip&e will need to be carefully considered. The Council should also ensure that its decision-making processes continue to be transparent and that it can clearly demonstrate how it has considered both the legal and value for money issues of the project.

## Financial Statements and Annual Governance Statement

On 13 September 2012 I presented my Annual Governance Report (AGR) in respect of the Pension Fund Annual Report to the Pensions Committee and on 19 September 2012 I presented my AGR on the Council's primary financial statements to the Audit Committee outlining the findings of my audit of the Council's 2011/12 financial statements. The Council produced a sound set of financial statements and the processes for preparing the financial

statements were good. My detailed conclusions from my audits are included within my Annual Governance Reports. 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.

## **Audit Opinions**

### **Shropshire Council**

I issued an unqualified opinion on your financial statements on 27 September 2012. In my opinion the accounts gave a true and fair view of the financial position of the Council as at 31 March 2012 and its income and expenditure for the year then ended. I also issued my responses to objections and questions raised by local government electors during the financial year and my Certificate for 2011/12 was issued on 5 October 2012. This formally closes the audit for 2011/12.

I did not identify any material misstatements. However, 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 £21.867 million 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.

### **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 24 September 2012. 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.

### **Whole of Government Accounts**

The whole of Government Accounts (WGA) cover approximately 1,300 bodies. They aim to provide commercial style accounts for the public sector and are prepared by the Treasury.

The Council is required to submit a consolidation pack that summarises the Council's financial statements in a consistent way with all other local government bodies. To support this I am required to submit a statement confirming that it was consistent with the Council's audited financial statements. This work was completed on 27 September 2012.

## The governance framework

I did not identify any significant weaknesses in your internal control arrangements. Overall you have adequate arrangements in place for securing internal control.

The Authority 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 are consistent with my understanding of the Authority. I have also reviewed the Authority's risk management arrangements and consider these to be adequate.

I consider that the key areas for action in 2012/13 are:

- maintaining financial stability through delivery of the Council's Medium Term Financial Plan;
- ensuring continuing delivery of the Transformation Programme; and
- introduction of effective governance and control arrangements to ensure that the Council can fulfil its relevant statutory and legal obligations upon the new Council owned company, ip&e being established.

## Pension 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 2011/12, the fund benefited from investment returns of 4.7 per cent and its value rose by £48 million to £1.087 billion, an increase which outperformed its benchmark by 1.2 per cent.

The liability at 31 March 2012 was £286 million, which increased from the 31 March 2011 level of £234 million. The underlying commitment to pay future pensions continues to impact on local authority balance sheets. The overall good governance arrangements of the Shropshire County Pension Fund should continue to help the Council to meet the future challenges it may face in respect of public sector pensions.

## Certification of returns

The Council prepares grant claims to receive central funding for some services it provides. The Council has made five grant claims in 2011/12. All claims were submitted for audit before the national deadlines and adequate working papers were provided to support the claims. I have presently certified three of the five claims, none of which required amendment prior to certification and submission.

The remaining two claims relate to Teachers' Pension and Housing and Council tax benefits paid. The deadline for certification of these is 30 November 2012. No major issues have yet been identified from my work to date on these claims. However, given the complexity of the Housing Benefit scheme and the volume of transactions it is not unusual for this claim to be amended or qualified following the completion of audit work.

## 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 2011/12. In addition, I have other responsibilities under the 1998 Act, including investigating questions or objections from electors on the Council's accounts. During 2011/12 financial year, I have concluded reviews which have arisen from questions from the public in respect of:

- Quantum Leap;
- Care assessments;
- Expenditure on the Music Hall;
- Small holding sale;
- Taxi licensing;
- Cost of the incinerator; and
- Public Interest Disclosure Act (PIDA).

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. A separate report in respect of my review of Quantum Leap has been provided to the Council and will be presented separately to the next Audit Committee meeting. My key conclusions are in respect of better documentation of the decision-making processes, improved reporting of potential liabilities where costs are being disputed and for major capital contracts ensuring the 'employers' role in the oversight of arrangements and monitoring of performance is clearly set out and defined. I have agreed a detailed action plan with the Council for the recommendations made.

## 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 Authority has addressed the matches presenting the highest risk of fraud and has worked through the remaining matches. There were no material frauds identified.

# Value for money

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**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.

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## 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 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 continued to undertake detailed work during 2011/12 to ensure financial stability and to continue to deliver frontline services. Towards the end of 2011, the Council was forecasting a £1.95 million 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 £2.7 million. Ongoing action will be required to be taken during 2012/13 as the Revenue Monitoring report at period 5 shows that the forecast overspend for the year is £2.986 million. 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.</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 per cent and 2 per cent of the gross revenue budget. For 2012/13 the minimum balance required is £3.27 million and the latest Revenue Monitoring report details a forecast balance at 31 March 2013 of £2.755 million.</p>

## Criterion

### **2. Securing economy efficiency and effectiveness**

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2011/12:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key messages

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 per cent 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.

The Council has committed action plans to aid the improvement in these areas. Ongoing progress is key to driving the Transformation Programme.

- Shared services arrangements are a major development in 2012/13 and the Council has achieved a saving of £1.8 million per annum (recurring) in total out of the arrangement.
- 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.

# Closing remarks

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I have discussed and agreed this letter with the Head of Paid service and the Corporate Head of Finance and Commerce. I will present this letter at the Audit Committee in December 2012.

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

Report	Date issued
Audit Plan	March 2012
Shropshire LINK	April 2012
Annual Governance Report	September 2012
Audit opinion and value for money conclusion	September 2012
Quantum Leap	October 2012

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

Grant Patterson

District Auditor

October 2012

# Appendix 1 - Fees

The table below sets out the scale, proposed and the actual final 2011/12 fees.

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	295,650	295,650	295,650
Claims and returns		66,000	60,000*
Non audit fees – Review of governance arrangements for Shropshire LINK		0	2,000
<b>Total</b>		<b>361,650</b>	<b>357,650</b>

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 £333,998.

On 28 July 2011 Ministers set out their decision to outsource all the audits currently undertaken by the in-house practice to the private sector. On 5 March 2012 the Audit Commission announced that Grant Thornton (UK) LLP had been awarded the contract for the Audit Commission's West Midlands audit work. The change of audit provider is effective from 1 September 2012 and will cover the 2012/13 audit year onwards. All staff currently employed by the Audit Commission on the audit will transfer to Grant Thornton under TUPE arrangements from 1 November 2012.

Following the outsourcing the total fees charged are expected to reduce by 40% to around £204,040 for 2012/13 (Audit Fee, £177,390 and composite certification fee £26,650) based on scale fee information published by the Audit Commission.

\* The certification work on housing benefits and teachers' pensions is still ongoing and this may result in a variation to the expected fee.

# 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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