



The Audit Findings for Shropshire Council

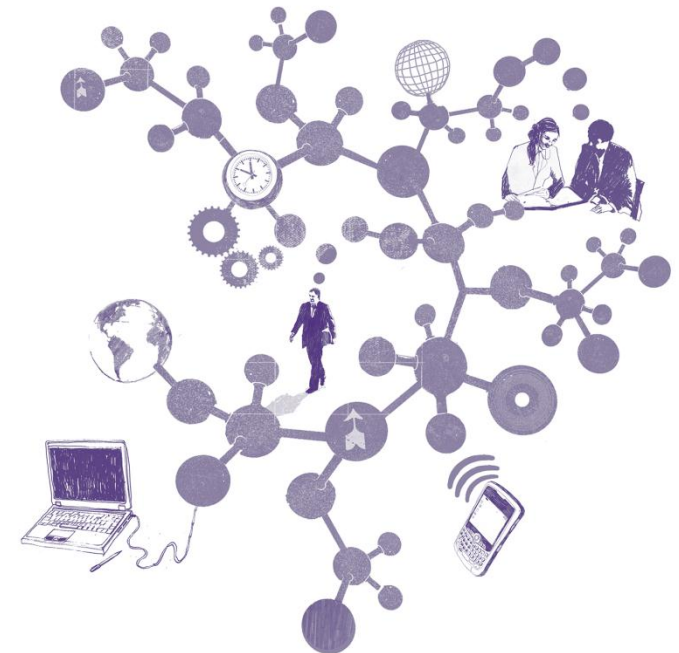
Year ended 31 March 2013

19 September 2013

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Appendices

- A Action plan
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Shropshire Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2013.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable. Our audit is substantially complete although we are finalising our work in the following areas:

- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion, and
- review of the Council's Whole of Government Accounts submission.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the financial statements presented for audit were sound
- the processes for preparing the financial statements remain strong and were supported by the improvements in the working papers agreed following last year's audit
- the support provided to external audit throughout the year has ensured an efficient year end audit process, and
- with the exception of the Waste PFI (private financing initiative) accounting adjustments highlighted below, the remainder of the adjustments to the financial statements were minor and narrative and presentational in nature.

As part of our interim audit work the Council highlighted technical accounting questions it had about the outputs from model being used to produce the figures in the financial statements in respect of the Waste PFI. We have worked with the Council's officers to agree its proposals for identifying a more accurate way of accounting for the scheme over its life cycle. This has resulted in a number of changes to the draft financial statements as shown on page 13.

In addition, we identified changes to the way the Council should have accounted for an education grant and the presentation of housing prepayments and rent arrears. The overall impact of the adjustments is the that the net cost of provision of services has reduced from £230.789m to £218.306m and net comprehensive expenditure has reduced from £144.819m to £136.548m.

Further details are set out in section 2 of this report.

Value for money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

We draw your attention in particular to control issues identified in relation to: information technology.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Head of Finance, Governance and Assurance.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Head of Finance, Governance and Assurance and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: Audit findings

01. Executive summary

02. Audit findings

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05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee in March 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you in March 2013.

Audit opinion

We anticipate that we will provide the Council with an unqualified opinion. Our draft audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards. We did not identify any significant risks other than these.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams, and • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • testing of journals entries • review of accounting estimates, judgements and decisions made by management, and • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Operating expenses understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> •documented our understanding of processes and key controls over the transaction cycle. •undertaken walkthrough of the key controls to assess the whether those controls are designed effectively. •tested a sample of transactions included within operating expenses. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> •documented our understanding of processes and key controls over the transaction cycle •undertaken walkthrough of the key controls to assess the whether those controls are designed effectively •tested a sample of creditor balances •reviewed payments made in the new year to obtain assurance on the completeness of creditors at the year end. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks (continued)




Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Employee remuneration</p>	<p>Remuneration expenses not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> •documented our understanding of processes and key controls over the transaction cycle •undertaken walkthrough of the key controls to assess the whether those controls are designed effectively •tested a sample of employee remuneration transactions included within payroll expenditure within operating expenses •agreement of employee remuneration disclosures in the financial statements to supporting evidence. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Welfare expenditure</p>	<p>Welfare benefits improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> •documented our understanding of processes and key controls over the transaction cycle •undertaken walkthrough of the key controls to assess the whether those controls are designed effectively •tested material elements of welfare expenditure in line with the Audit Commission HB Count methodology. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks (continued)



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Housing rent	Revenue transactions not recorded.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> •documented our understanding of processes and key controls over the transaction cycle. •undertaken walkthrough of the key controls to assess the whether those controls are designed effectively. •tested a sample of housing rent rental revenue including undertaking predictive analytical review on dwelling rents. 	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment (PPE)	<p>PPE activity not valid</p> <p>Revaluation measurement not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> •documented our understanding of processes and key controls over the transaction cycle. •undertaken walkthrough of the key controls to assess the whether those controls are designed effectively. •tested a sample of additions and disposals transactions included within property, plant and equipment •agreement of a sample of material valuations to the asset register 	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue transactions are recorded on an accruals basis, meaning that sums due to the Council in the year are accounted for even if the cash has not yet been received. 	<p>We have reviewed the Council's key estimates and judgements and concluded that:</p> <ul style="list-style-type: none"> the policy is relevant under the accounting framework extent of judgement involved is reasonable disclosure of the accounting policy is adequate 	 (Green)
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> useful life of capital equipment pensions liability asset valuations impairments provisions 	<p>We have reviewed the Council's key estimates and judgements and concluded that:-</p> <ul style="list-style-type: none"> each policy is relevant under the accounting framework. the extent of judgement involved is reasonable. disclosure of the accounting policy is adequate. benchmark against industry practice is consistent. 	 (Green)
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	 (Green)

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Misstatements

We are required to report to you any non-trivial unadjusted misstatements or material adjustments of such a size and nature that, in our view, we need to bring to your attention to help you discharge your responsibilities as those charged with governance. A number of adjustments to the draft financial statements have been identified during the audit process which we wish to bring to your attention. The table below summarises the adjustments arising from the audit which have been processed by management, along with the impact on the key statements and the reported financial position. There are no non-trivial unadjusted misstatements.

Detail	Entries within Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net comprehensive expenditure £'000
1 Waste PFI scheme – the Council identified that over the life of the PFI contract the accounting model it was using would result in the balance sheet being out of balance by £30.3m. This is the difference between 'Real additions' of £141.8m and 'Nominal additions' of £111.6m and occurred because new asset additions were being added to the finance lease liability on a Nominal basis, whilst the finance lease principal (amount by which the liability is written down by) was calculated on a Real Basis. We have worked with the Council to agree its proposals for identifying a more accurate way of accounting for the scheme over its life cycle. This has resulted in a number of changes to the financial statements.	Adjustments have been made to reduce Environmental and Regulatory Services expenditure by £10,753k, increase Financing and Investment expenditure of £3,759k and reduce the Deficit on revaluation of non current assets by £542k.	Adjustments have been made to reduce Vehicles, Plant and Equipment by £555k, increase Short Term Debtors by £8,313k, increase deferred liabilities by £1,217k, increase Unusable Reserves by £12,497k and reduce Usable Reserves by £4,226k.	£6,994 reduction in expenditure
2 Early intervention grant (EIG) - The EIG is a specific grant but has no conditions attached to it. Some of the grant balance had been applied to the Comprehensive Income and Expenditure Statement (CIES) and the Council held the remaining uncommitted balance on the balance sheet as a government grant creditor. As there are no conditions the whole of the EIG grant should be recognised in the CIES and any uncommitted balance should be contributed to Earmarked Reserves.	Adjustments have been made to increase the income of Education and Children's Services by £1,729k.	Adjustments have been made to reduce Short Term Creditors of £1,729k and increase earmarked reserves by £1,729k.	£1,729 reduction in expenditure
3 There was a misclassification of housing rent arrears and prepayments.	Not applicable	Adjustments have been made of £49k between debtors and creditors.	Not applicable
Overall impact (on bottom line)	£8,271	£8,271	£8,271 reduction

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	Various	Various	A number of comparative balances were incorrectly disclosed from the previous year's financial statements. No impact on the financial statements.
2 Disclosure	£78,000	Post balance sheet events – academy schools	Five schools transferred to academy school status after the Balance Sheet date and were not disclosed as a non adjusting post balance sheet event. No impact on the financial statements.
3 Disclosure	Various	Cash flow statement	Further detail was needed on what was contained on the miscellaneous receipts and payments lines on the notes to the cash flow statement. No impact on the financial statements.
4 Disclosure	Various	Housing Revenue Account	Further detail was required on the revenue recognition policy for rental income and the general purpose of the HRA (Housing Revenue Account). No impact on the financial statements.
5 Disclosure	£158,839	Housing stock	The Council have used ONS (Office of National Statistics) to value housing stock in 2012/13. This was not disclosed as a significant accounting estimate. No impact on the financial statements.
6 Disclosure	£4,074	Depreciation on housing stock	Further detail was required on why the Council believe MRA (Major Repairs Allowance) to be a reasonable approximation for depreciation. No impact on the financial statements.
7 Disclosure	£69,087	DWP (Department of Work and Pensions) Housing Benefit	The subsidy received for this grant was £5k overstated in Note 35 to the accounts. No impact on the financial statements.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	<ul style="list-style-type: none"> There are currently no processes in place for users to periodically (or at the commencement of employment), acknowledge the "Acceptable Use of Electronic Service" document which is the Information Technology security policy. Without such acknowledgement in place, it may make holding a user accountable for their actions difficult. 	<ul style="list-style-type: none"> Management should introduce a process that requires staff to formally acknowledge the security and IT policy in order to ensure they understand the controls and procedures in place that they need to adhere to. This could be an automated process where users must acknowledge a suitably worded network logon warning banner message.
2.	●	<ul style="list-style-type: none"> One member of the Domain Administrators group was identified as having an account not associated with her name. In addition the default 'Administrator' account has not been renamed due to the potential complexities this will cause in legacy systems. The use of usernames not associated directly with users weakens accountability within the system. The use of the default 'Administrator' account provides an account which could potentially be compromised by an individual with malicious intent. 	<ul style="list-style-type: none"> All users within the Domain Administrators group should be given accounts which link directly to their own names. In addition it should be a longer-term goal of the IT team to rename the default Administrator account in order to enhance the security of the system.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Internal Controls continued

	Assessment	Issue and risk	Recommendations
3.	●	<ul style="list-style-type: none"> There are four users who have access to the super-user account ('RB') used within the Northgate Revenues & Benefits software. Users who are given access to this account are limited and are required to sign an additional declaration stating that they will not divulge the password to this account. Audit logs are maintained of the account however they are not reviewed. The use of shared generic accounts presents a risk through the system having a weak audit trail. This may mean that any inappropriate events which occur within the system cannot be linked to an individual operator. 	<ul style="list-style-type: none"> Management should investigate whether the generic RB account can be replaced with named user accounts which have the required level of functionality. If this is not possible there should be a process of reviewing the audit logs associated with this account so that any inappropriate action would be promptly identified.
4.	●	<ul style="list-style-type: none"> There is one user of the Resource Link payroll system who has responsibility for processing payroll functions who also has system administration access. This represents an inadequate segregation of duties. Without suitable segregation of duties the risk of material misstatement through fraud or error is increased. 	<ul style="list-style-type: none"> The list of users with access to the 'SUPERVISOR' and 'PAYALL' functions within the ResourceLink should be subject to review to ensure that access levels are commensurate with job requirements.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council including reference to the significant assumptions used in making accounting estimates.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council 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.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted generally sound arrangements in all areas. In particular:

- Budget monitoring is regularly reported to Cabinet and these reports are RAG rated which enables Members and Officers to be aware of the risks that are facing the Council.
- For the last two financial years, there has been an overspend in 2012/13 of £0.284m and an underspend in 2011/12 of £2.709m. For 2012/13, the overspend represents 0.04% of the original gross budget of £653m. This overspend was principally due to purchasing care pressure within long term support for adults (£5m). However, this was offset across the authority by looking at discretionary spend in service areas and making in-year reductions to offset the known and anticipated pressures in long term support.
- Overall the General Fund balance has reduced from £7.638m as at 31/3/2012 to £6.820m as at 31/3/2013. The fall in reserves is primarily due to the use of earmarked reserves and an assumed council tax subsidy underspend. The Council has a policy to remain above a minimum general fund balance of £3.27m in 2012/13 and this has been achieved. The Council has sufficient cash and reserves to ensure it is reasonably placed to meet the short-term future financial challenges in 2013/14 and 2014/15.
- Looking forward, and following the government's latest budget announcements on local funding, the Council is forecasting that it will be able to deliver balanced budgets through to 2013/14 but has identified potential budget "gaps" in the medium to long term with additional recurrent savings requirements of around £80m over 2014/15 to 2016/17.

Value for Money

- There is still significant uncertainty in the figures, particularly in relation to 2015/16 and 2016/17, but the Council has recognised that the levels of savings required from 2015/16 onwards means it will need to consider how it delivers services in the future. There has been a series of service reviews, as part of the Council's overall Budget Strategy, as well as a move to zero based budgeting from August 2013 across all service areas. The outcome of this will be reported later in the year.

Overall we are satisfied that in the short-term the Council is in a sound financial position. It is taking actions to identify medium-term requirements and options. There remains significant uncertainty and it will be important for the Council to ensure that future financial plans are fully developed, agreed and delivered.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. We have concluded that the Council has sound arrangements in place, and in particular:

- The Council has taken action to identify areas of potential high cost and address these through initiatives such as the use of shared services in order to redesign services to maximise efficiency and performance rather than cutting budgets.

- A formal service review process has commenced which is challenging all areas of the Council's current and future service provision in order to identify the savings which are required to bridge the potential budget "gaps" identified for 2014/15 and 2016/17. Proposals for consideration on potential savings were reported to Cabinet in July 2013, and Members were asked to determine which proposals to take forward.
- However, we have noted the Internal audit findings on key financial systems where unsatisfactory assurance on payroll remains an area of concern especially as it accounts for a large proportion of the Council's expenditure. This indicates that there are areas where cost reductions may have created unintended impacts upon service delivery. The Council faces a significant challenge in addressing the potential budget gaps identified from 2014/15 onwards and the Council will need to ensure it keeps on top of its actions plans to address improvements in this area. Overall we are satisfied that it is taking appropriate action to meeting these challenges and ensuring economy, efficiency and effectiveness in its use of resources.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Council audit	177,000	177,000
Grant certification	27,000	27,000
Total audit fees	204,000	204,000

In respect of the fee:

- Our fees are exclusive of VAT.
- In our audit fee letter we indicated that additional fee of £35,000 may be required to review the Council's new governance arrangements and particularly the new company ip&e Ltd. As the Council's plans for 2012/13 were deferred into 2013/14 this work has not been undertaken and no additional fee charged.
- The grant certification fee is indicative and may vary dependent upon the final levels of audit required. We are still completing our grant certification work and will report upon the fee once it is completed.
- As noted earlier in this report, extra audit work has been carried out to verify the accuracy of the Waste PFI changes. We are currently considering whether additional fee for this work will be required.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Management should introduce a process that requires staff to formally acknowledge the security and IT policy in order to ensure they understand the controls and procedures in place that they need to adhere to. This could be an automated process where users must acknowledge a suitably worded network logon warning banner message.	Low	All staff are now required to carry out online training on protecting information.	Information Governance Officer. Implemented immediately.
2	All users within the Domain Administrators group should be given accounts which link directly to their own names. In addition it should be a longer-term goal of the IT team to rename the default Administrator account in order to enhance the security of the system.	Low	An ICT resourcing mitigation plan has been submitted which will provide capacity to make these changes.	Infrastructure and Security Team Leader by December 2013
3	Management should investigate whether the generic RB account can be replaced with named user accounts which have the required level of functionality. If this is not possible there should be a process of reviewing the audit logs associated with this account so that any inappropriate action would be promptly identified.	Low	It is not possible to replace the RB account within the Northgate iWorld system as the system is designed in such a way that some specific processing jobs have to be run using the RB User Account. We will investigate a process for reviewing the audit logs associated with this account.	Infrastructure and Security Team Leader. by 20/09/2013.
4	The list of users with access to the 'SUPERVISOR' and 'PAYALL' functions within the ResourceLink should be subject to review to ensure that access levels are commensurate with job requirements.	Low	A review of roles and responsibilities is being undertaken.	Infrastructure and Security Team Leader. Implemented.

Appendix B: Audit opinion

We anticipate we will provide the Council with an unqualified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL

Opinion on the financial statements

We have audited the financial statements of Shropshire Council for the year ended 31 March 2013 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 Statement, 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 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 2012/13.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance, Governance and Assurance and auditor

As explained more fully in the Statement of Responsibilities the Head of Finance, Governance and Assurance's 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. Our 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 us 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 Head of Finance, Governance and Assurance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Shropshire Council as at 31 March 2013 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 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our 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 we report by exception

We report to you if:

- in our 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;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we 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
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we 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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are 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 2013.

Certificate

We certify that we have completed the audit of the financial statements of Shropshire Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Grant Patterson
 Director
 for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza
 20 Colmore Circus
 Birmingham
 B4 6AT

September 2013

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you in March 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – Housing revenue	HRA	Other	Housing revenue transactions not recorded	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



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