



The Annual Audit Letter for Shropshire Council

Year ended 31 March 2013

30 October 2013

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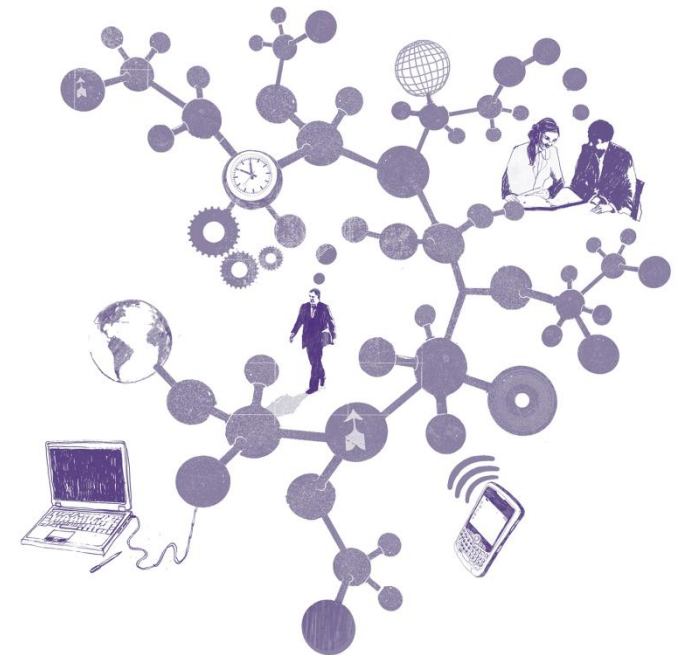
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Section 1: Executive summary

01. Executive summary

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Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Shropshire Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 19 September 2013.

Responsibilities of the external auditors and the Council

This Letter 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).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in March 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified opinion on the Pension Fund accounts within the financial statements and the Pension Fund Annual Report which give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2013
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, and
- an unqualified opinion on the council's Whole of Government Accounts submission.

Our work on the Council's grant claims is still in progress. To date we have certified two claims for the financial year 2012/13 relating to National Non Domestic Rates (NNDR) and Pooling of Housing Capital Receipts with no significant issues being identified.

Our work on the Teachers' Pensions and Housing and Council Tax Benefit claims is on-going. No issues have been identified at this time in respect of the Teachers' Pension claim but we have identified a number of errors in our discovery samples on the Benefits claim which are likely to lead to the need for a qualification letter.

Executive summary (continued)

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

Medium Term Financial Position

The Council's overall financial position is, like those of most councils, very challenging. The budget for 2013/14 confirmed a need to deliver savings of £24 million in this financial year, with a further £42 million required to provide a balanced position in 2014/15. The Medium Term Financial Plan currently forecasts that an additional £38 million of recurrent savings will be required for 2015/16 and 2016/17, giving a total budget 'gap' of £80m.

The Council is facing considerable financial pressure, particularly within Adult Social Care, and has acknowledged that it needs to consider how it delivers services going forward. There has been a series of service reviews as part of the Council's overall Budget Strategy as well as a zero based budgeting exercise in August 2013 across all service areas.

The General Fund balance has reduced from £7.6million as at March 2012 to £6.8 million in March 2013. This reduction was as a result of supporting the in year deficit position and an assumed Council Tax subsidy underspend. The Council has a policy to remain above a minimum General Fund balance of £3.3 million and this has been achieved. The Council has sufficient cash and reserves to ensure that it is reasonable placed to meet the short term future financial challenges, however, these reserves will not support the scale of savings required by the Medium Term Financial Plan. Therefore, it is imperative that robust saving plans are formulated and delivered going forward.

Governance

The past 12 months has seen significant changes at the Council. There is a new Senior Management Team in place, and the Council has continued with its transformation plans with the creation of ip&e ltd and the merging of internal

services. Overall, the Council can demonstrate a good track record for governance arrangements. However, in 2012/13 issues arose which resulted in the Council's Internal Audit Services Manager providing a qualified opinion, which was reported in the Annual Governance Statement.

The issues identified were not considered to represent significant control weaknesses but cost reductions may have created unintended impacts upon service delivery. With the Council about to embark upon further and significant transformation, including a voluntary redundancy programme and significant staff reductions, the Council needs to ensure that it keeps on top of its actions and assesses the wider governance and control implications of any savings made to the business as a whole.

The communication of plans and management of the community's expectations will be important as the Council moves through change and potential reconfiguration of services. 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 but it will be important for the Council to ensure that future financial plans are fully developed, agreed and delivered.

Acknowledgements

This Letter has been agreed with the Chief Executive and the Head of Finance, Governance & Assurance and will be presented to the Audit Committee in December 2013.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

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Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts on 28 June 2013, in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced 8 July 2013.

The draft 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.

Issues arising from the audit of the accounts

As part of our interim audit work the Council highlighted technical accounting questions it had about the outputs from the model being used to produce the figures in the financial statements in respect of the Waste PFI. We 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 resulted in a number of changes to the draft financial statements which were reported our Audit Findings Report.

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 was that the net cost of provision of services has reduced from £230.8m to £218.3m and net comprehensive expenditure has reduced from £144.8m to £136.5m.

The remainder of the adjustments to the draft financial statements were minor, being narrative and presentational in nature.

We identified one net non-trivial adjustment of £0.327m in respect of the valuation of assets in the Pension Fund for which the Audit Committee and Pensions

Committee agreed an amendment was not required. If an amendment had been made it would have increased both the Fund's reported surplus and net assets by £0.327m.

The Council submitted its draft Whole of Government Accounts pack for audit by the deadline of 7 August and we submitted the assurance statement on 30 September 2013 based on the pack being consistent with the audited financial statements.

We did not receive any formal questions or objections from local government electors on the accounts. We responded to one piece of information we received from the public in respect of payments to a consultant. This had already been subject to review by Internal Audit and we concluded there was no formal actions we were required to take. This allowed us to certify the audit as complete on 30 September 2013.

Annual governance statement

We concluded that the Annual Governance Statement and Explanatory Foreword were consistent with our knowledge of the Council. Our review confirmed that the statement fairly reflects the Council's risk assurance and governance framework.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 19 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 30 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Section 3: Value for Money

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Value for Money

Scope of work

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 a 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 effectively manage 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 three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

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 £80 million over 2014/15 to 2016/17.

Our work highlighted that the Council has a Financial Strategy for the period 2013/14 to 2022/23, approved by Cabinet in January 2013. The Council has a good track record of managing its budget and its cost savings requirements. However, the next three years provide a significant challenge to identify savings of £80 million, with over half of this (£42 million) being required in 2014/15. Following the extensive savings delivered over the past three years, the Council is now challenging how services are delivered to identify further savings and efficiencies. Overall we were satisfied that in the short-term the Council is in a sound financial position but 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 and whether it has achieved cost reductions and improved productivity and efficiencies. The past three years have seen the Council deliver considerable savings. Overall, strategic performance has been maintained during 2012/13. Sixteen of the Organisational Health performance measures (94%) showing improvement from 2011/12. In addition, 59% of the reported indicators that are part of the Outcomes for Shropshire Scorecard show an improvement from 2011/12, whilst 32% have shown a decrease and 9% remain at the same level. This is a significant achievement for the Council. However, the future challenge will be maintaining service delivery standards with further reductions to budgets.

A formal service review process has recently concluded 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 to 2016/17. The review process links with the Council priorities, looking to commission more services, building upon the commissioning pilot being run in Church Stretton.

The Council faces a significant challenge in addressing potential budget gaps.. Overall we are satisfied that it is taking appropriate action to meeting this challenge 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 has 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: Certification of grant claims and returns

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Certification of grant claims and returns

Introduction

We are required to certify certain claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

To date we have certified two claims for the financial year 2012/13 relating to National Non Domestic Rates (NNDR) expenditure of £71.1 million and Pooling of Housing Capital Receipts with a value of £965k. No amendments were required to either claim.

Our work on the Teachers' Pensions and Housing and Council Tax Benefit claims is on-going. No issues have been identified at this time in respect of the Teachers' Pension claim. The deadline for certification for the Benefits claim is the end of November 2013. To date we have identified a number of errors in our discovery sample which are likely to lead to the need for a qualification letter.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Key messages

The key messages from our certification work are summarised in the table below. Further details will be provided in our certification report which we expect to issue in December 2013. .

Summary of the Council's arrangements

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	One claim (Teachers Pension) was not received by the deadline due to on-going correspondence between the grant body and the Council.	● Amber
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	No amendments required to the NNDR claim or the Pooling of Housing Capital Receipts claim. No issues identified on Teachers Pension Claim at this time but a Qualification Letter is anticipated to be required to the Housing and Council Tax Benefit claim.	● Amber
Supporting working papers	The Council provides excellent working papers to support the claims, and all staff fully participate in the audit process.	● Green

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit. There were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	177,000	186,495
Grant certification fee	27,000	27,000
Pension fund fee	23,425	25,403
Total fees for audit	227,425	238,898

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 final Audit Fee includes £9,495 for the specialist technical audit input required to gain assurance on the changes to the Waste PFI disclosures within the financial statements. This is a proposed fee variation which is currently subject to Audit Commission approval.
- In line with Audit Commission protocols (Standing Guidance to Auditors, appendix 2, section 3), we have completed work as pension fund auditor to provide assurances to other auditors over the reliability of the information provided by the administering authority to the actuary for the purposes of making their IAS19 estimates. This work is additional to that which we need to complete for our opinion on the pension fund accounts. The Audit Commission protocol requires us to bill the administering authority for any such additional work. The Audit Commission has confirmed that a fee variation of £1,978 for the work.
- Grant certification work is on-going. The planned grant certification fee was an indicative scale fee set by the Audit Commission based upon fees charged in 2010-11. The final grant certification fee for 2012-13 may vary dependent upon the final levels of work we are required to undertake. As above, if we believe a variation is required we are required to inform the Audit Commission who will determine the final fee which will be reported in our annual certification report.

Reports issued

Report	Date issued or planned
Audit Plan	March 2013
Audit Findings Report	September 2013
VfM – Financial Resilience Report	September 2013 – issued to management
Certification report	To be issued once work is complete – anticipate December 2013
Annual Audit Letter	October 2013

Fees for other services

Service	Fees £
None	Nil



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