

Date: Thursday, 7 September 2017

Time: 1.30 pm

Venue: Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire,
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AUDIT COMMITTEE

TO FOLLOW REPORT (S)

14 External Audit: Shropshire Council Audit Findings 2016/17 (Pages 1 - 48)

The report of the Engagement Lead is attached, marked 14.
Contact: Mark Stocks (0121) 232 5437

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The Audit Findings for Shropshire Council

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2017

September 2017

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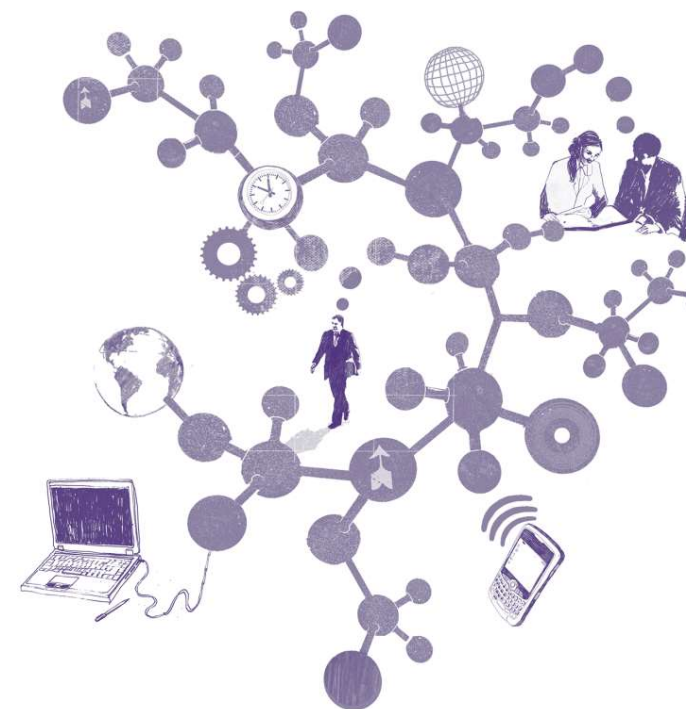
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Agenda Item 14

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September 2017

Dear Members of the Audit Committee

Audit Findings for Shropshire Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Shropshire Council, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 and giving a value for money conclusion. 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.

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

Yours sincerely

Mark Stocks

Partner / Engagement lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Shropshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated February 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the pension guarantees issued by the Council;
- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- updating our post balance sheet events review, to the date of signing the opinion and
- Whole of Government Accounts.

We received draft financial statements in accordance with the statutory timetable. We did not receive working papers in line with the agreed timetable and this will be a key focus for our audit next year to better support the shorter timescale.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the group and Council's reported financial position (details are recorded in section two of this report). The draft and audited financial statements for the year ended 31 March 2017 recorded net expenditure of £191,229k. We have, however, recommended a number of adjustments to improve the presentation of the financial statements.

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

- The Council initially produced a strong set of financial statements with no fundamental issues;
- Internal Audit identified weaknesses in the collection of debtors which resulted in additional testing; this testing identified that there were also issues with the write off of old debtors.

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

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.

Findings

Our work has not identified any significant control weaknesses. Our audit has identified areas where improvements could be made to strengthen controls around the Council's arrangements. These were in two main areas, sales ledger debt and IT.

- Substantive testing found debtor balances which appeared to be irrecoverable in several areas. The majority of these related to the Northgate balances monitored via the Northgate system. Controls for identifying balances and subsequent write off are not functioning sufficiently regularly. However, examination of the bad debt provision has identified that they have been appropriately provided for.
- General controls around the IT environment, predominantly relating to policies and procedures. These have been considered by the Trust and progress made against either implementing improvements, or feeding weaknesses into the procurement of new systems to ensure that these are rectified. Our testing has considered these weaknesses and appropriate testing has been undertaken to mitigate the risk of material misstatement.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit Committee which is due in February 2018.

The way forward

Matters arising from the financial statements audit and our 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 at Appendix A. Recommendations have been discussed and agreed with the Head of Finance, Governance and Assurance and the finance team.

Acknowledgement

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 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £10,409k (being 1.75% of prior period gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and identified the following issues that led us to revise our overall materiality to £10,009k (being 1.75% of adjusted gross revenue expenditure); the draft financial statements showed a significant year on year decrease in gross expenditure (£597,103k to £543,739k). Therefore, it was felt that continuing to use the planning materiality based on the prior period figure would result in a higher than acceptable level of detection risk. As such, materiality was recalculated based on the current year figure, further adjusted for the £28,230k exceptional housing revaluation gain posted to the Housing Revenue Account.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £500k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of senior manager salaries and allowances in the remuneration report.	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k
Disclosures of transactions with related parties.	Due to public interest in these disclosures and the statutory requirement for them to be made. Related party transactions have to be disclosed if they are material to the Council or the related party.	£20k, although any errors identified by testing will be assessed individually, with due regard being given to the materiality of the other party.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Shropshire Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition;• opportunities to manipulate revenue recognition are very limited; and• the culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable.	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none">• Reviewed journal entry process• Reviewed accounting estimates, judgments and decisions made by management• Reviewed journal entry process and selection of unusual journal entries for testing back to supporting documentation• Reviewed unusual significant transactions	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing 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>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> Reviewed management's processes and assumptions for the calculation of the estimate. Reviewed the competence, expertise and objectivity of any management experts used. Reviewed the instructions issued to valuation experts and the scope of their work Discussed with the Council's valuer the basis on which the valuation was carried out and challenged the key assumptions. Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. Tested revaluations made during the year to ensure they are input correctly into the Council's asset register Evaluated the assumptions made by management for those assets not revalued during the year and ascertained how management has satisfied themselves that these are not materially different to current value. 	<p>Our audit work noted an above variance of £3.866 million between the market valuation of the Council's HRA stock provided by the District Valuer and estimated values based on a selection of national and regional indices obtained from independent sources by the auditor.</p> <p>We have queried this variance with the valuer who has confirmed that the national and regional indices do not reflect the geography or age of the Housing Stock. Furthermore, they reflect the general housing market, not housing stock and making these adjustments the Valuer considers that the variance appears within reasonable tolerance of the growth implied by the house price indices.</p> <p>We are satisfied that the valuation of property, plant and equipment is not materially misstated.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. Assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation, gaining an understanding of the basis on which the valuation was carried out. Undertaken procedures to confirm the reasonableness of the actuarial assumptions made. Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work did not note any issues in this area.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Changes to the presentation of local authority financial statements</p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<ul style="list-style-type: none"> Documented and evaluated the process for recording the required financial reporting changes to the 2016/17 financial statements. Reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. Reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Our audit work did not find any issues in this area.</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. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses Page 13	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Year end creditors and accruals understated or not recorded in the correct period (Operating expenses understated) 	<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 were in line with our documented understanding Tested the control account reconciliations Searched for unrecorded liabilities by testing whether the cut off of post year end payments is appropriate Verified creditors to supporting documentation and subsequent payments to ensure that creditors are correctly classified and recorded in the correct period 	Our audit work did not find any issues in this area.
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<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 were in line with our documented understanding Agreed staff costs per the financial statements to the General Ledger and the payroll system Undertaken monthly trend analysis to gain assurance that there have been no significant omissions from staff costs recorded 	Our audit work did not find any issues in this area.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that there are no material concerns around the entity's ability to continue as a going concern and as such the financial statements are reasonably prepared on a going concern basis.



Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
STAR Housing Ltd.	Yes	Comprehensive	Risk of material misstatement due to errors in STAR Housing accounts or consolidation process	Full scope UK statutory audit performed by Grant Thornton	Our audit work has not identified any issues in respect of the subsidiary or consolidation process.
West Mercia Energy	No	Analytical	N/A	Desktop review performed by GT UK	Our audit work has not identified any issues in respect of the subsidiary or consolidation process.
Ip&e Ltd.	No	Analytical	N/A	Desktop review performed by GT UK	Our audit work has not identified any issues in respect of the subsidiary or consolidation process.

Accounting policies, estimates and 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	<p>The Authority's policy is set out in its accounting policies:</p> <ul style="list-style-type: none"> 1.2 – Accruals of income and expenditure; 1.17 – Government Grants and Contributions; 1.21 – Provisions and Contingent Liabilities 	<ul style="list-style-type: none"> The Authority's policy is appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice; Minimal judgment is involved; The accounting policy is appropriately disclosed; Council policy is in line with industry practice. 	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Useful lives and residual value of PPE; Property valuations, including revaluations, impairments and fair valuations; PFI estimations and liabilities; Government funding and the high degree of uncertainty; Reserves and the level of funding which is held in general and earmarked reserves; Pension fund valuations and settlements, and Provisions, including the recovery of Council tax and other debt arrears 	<p>The Council's approach to their estimates and judgements are broadly reasonable and appropriately disclosed, using expert advice where available.</p> <p>Our review of key estimates and judgements has not highlighted any issues which we wish to bring to your attention, beyond the considerations of valuation of HRA assets which are referred to earlier in this report.</p>	 Amber

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Section 151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	<div>●</div> <div>Green</div>
Other accounting policies	Accounting policies as set out in note 1 to the draft financial statements	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	<div>●</div> <div>Green</div>

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code 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 related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit Committee papers.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from PWLB, for loans and requested from management permission to send confirmation requests to other financial institutions for bank and investment balances. This permission was granted and the requests were sent. These have now been received in the main or alternative procedures to gain assurance have been undertaken.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<ul style="list-style-type: none"> We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is not yet complete and is scheduled to be undertaken during the week commencing 4th September 2017.

Internal controls

Assessment
● Significant deficiency – risk of significant misstatement
● Deficiency – risk of inconsequential misstatement

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.


	Assessment	Issue and risk	Recommendations
1	● Amber	<p>Controls put in place to identify and write off irrecoverable debtor balances are not functioning appropriately</p> <p>We noted several instances where reports to identify balances for write off were not being regularly run, or where the backlog of items is so large that significant debtor balances are being allowed to build up. However, our audit also noted that provisions are adequate.</p>	<p>Although the provisions in place are adequate, the Council should ensure that it resolves backlog issues and ensures controls are regularly performed in order to reduce unnecessary expenditure of resources on chasing irrecoverable balances.</p> <p>Management response: Work has been undertaken to review aged debt during the year and write off in bulk that which is deemed uncollectable. Work continues on developing the Corporate Credit Policy which is key to managing aged debt effectively. The implementation of the Enterprise Resource Planner System to replace the existing financial system will necessitate a completely new set of procedures and will be in part driven by this credit policy. A greater level of automation and workflow will allow focus on a more tailored approach to recovery based on the service being provided. At the same time improvements to billing will continue to be worked on as these have a direct impact on debt levels.</p> <p>The reports used to identify pending write-offs in relation to Council Tax and Business Rates have been reviewed and the criteria has been changed to ensure all years are included. As well as using these reports there is an ongoing review of all debtor balances starting from the oldest year first to ensure debts are being recovered or written-off as appropriate.</p>

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"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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 being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls (continued)

Assessment
 ● Significant deficiency – risk of significant misstatement
 ● Deficiency – risk of inconsequential misstatement

	Assessment	Issue and risk	Recommendations
2	 Amber	Lack of documented batch administration policies and procedures Documented policies and procedures have not been formally established addressing batch administration processes and related control requirements for ABS Efinancials.	Documented policies and procedures addressing batch administration processes and related control requirements within ABS Efinancials should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them. Once established, these documents should be periodically, formally reviewed (at least annually) to ensure their continued accuracy and appropriateness. Examples of topics commonly addressed within batch administration policies and procedures include batch monitoring, batch job error handling / resolution, change control over batch jobs and schedules, and descriptions of jobs scheduled. Typically, a single set of batch administration policies exist to address high-level control requirements as defined by the organisation's IT operations or compliance group while procedures exist for individual systems which outlining batch-related processes and controls unique to that system. Management Response: A full suite of procedure notes are available for all batch administration processes. Procedures are reviewed when changes are made and communicated to all relevant staff. The E5 change control process managed by the Financial Systems Team covers all changes/additions to batch administration and schedules and all changes are processes in the test environment before going live. Access to make changes to any controls within E5 is restricted to the System Administrators following a full change control process and authorisation by the System Owner.
		Reviews of information security logs created by active directory Logs of information security activity within Active Directory were not being formally, proactively, and routinely reviewed.	Given the criticality of data accessible through Active Directory, logs of information security events (i.e., login activity, unauthorised access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems. Management Response: Due to the large volume of logs created by Active Directory it is not feasible for these to be continually reviewed by staff. They are reviewed when an issue is identified or suspected (with the appropriate inclusion of the Councils Audit team). As part of the ongoing work to review and enhance the Councils security the ICT department will research and seek to procure a software tool which will allow automated reviews of these logs, and will report anomalies to appropriate individuals so they can investigate as appropriate. This work will be completed by December 2017.

Internal controls (continued)

Assessment


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

	Assessment	Issue and risk	Recommendations
4	● Amber	<p>Absence of an up to date IT security policy</p> <p>The existing IT Security Policy has not been updated since 2012 and is currently being refreshed. There is also no procedure currently in place to ensure that staff re-acknowledgment of this policy is recorded.</p>	<p>The IT Security Policy should be updated and approved by the relevant management body within the Council. A process to review the IT Security Policy on a periodic basis should also be introduced. The roll-out of the new policy should be supported by appropriate processes to ensure that staff are aware of both the contents of the Policy and their obligations which are contained within it.</p> <p>Management Response:</p> <p>The IT security Policy has been re-drafted and agreed with relevant teams. This will offer updated policies and procedures that are in-line with current national advice. The policy will be revised again in May 2018 to take account of changes required GDPR. Information Governance will be responsible for ensuring staff are aware of the revised policy. Awareness raising through training sessions and the e learning platform are being rolled out, including as part of other training initiatives. This will help to support staff to understand the importance of IT security. This training will be in addition to existing offerings, such as the information governance, level one and two compulsory training that is currently undertaken. An awareness session for Cabinet is also being planned for early October 2017.</p>
5	● Amber	<p>Automated notifications of leaver and mover activity</p> <p>Security administrators of ABS Efinancials, ResourceLink and Active Directory are not provided automated, proactive notifications of anticipated HR mover and leaver activity.</p>	<p>Security administrators of ABS Efinancials, ResourceLink and Active Directory should be provided with (a) timely, proactive notifications from HR of leaver and mover activity for anticipated activity and (b) timely, per-occurrence notifications for unanticipated mover and leaver activity. Security administrators of ABS Efinancials, ResourceLink and Active Directory should then use these notifications to either (a) end-date user accounts associated with anticipated leavers or (b) immediately disable user accounts associated with unanticipated leavers. These security administrators should then use these notifications amend and/or remove logical access belonging to movers and leavers.</p> <p>Management Response:</p> <p>Efforts have been made by the referenced departments to address this issue, however due to a lack of a common unique identifier of account between the three departments (HR – payroll number, ICT – CC number and Finance – a combination of the two methods depending on when the account was created) this work has proved difficult to progress.</p> <p>The ICT department blocks network access of any accounts which are not utilised for two months which will limit the potential for unauthorised access from staff who no longer work for the authority, as they will not be able to log in to the network, and as such will not be able to access the Finance or HR systems.</p> <p>The procurement of an ERP solution to replace the current Finance and HR systems. This has been purchased with a Hire to Retire module, which will address this issue.</p>

Internal controls (continued)

Assessment

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

	Assessment	Issue and risk	Recommendations
6	 Amber	<p>Proactive reviews of logical access within active directory and ResourceLink</p> <p>User accounts and associated permissions within Active Directory and ResourceLink are not formally, proactively reviewed for appropriateness</p>	<p>It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Active Directory and ResourceLink. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).</p> <p>Management Response:</p> <p>The ICT department is currently trialling auditing software which will allow this type of report to be generated and sent to department managers on a regular basis. When the appropriate solution has been identified a business case will be submitted to the Infrastructure and Architecture project board for approval/allocation of appropriate funds. It is estimated that this system will be in place by December 2017. Until then a full review of access is just being completed.</p>

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	WIP	ICT Disaster Recovery and Business Continuity ICT Resilience during a major event has been identified as inadequate and therefore there is a risk that access to and functionality of significant data could be considerably compromised in a major event. Business continuity and disaster recovery arrangements do not, currently, reduce this risk to levels acceptable to the organisation.	<ul style="list-style-type: none"> The Council has undertaken significant work over the past 10 months to ensure that ICT Disaster Recovery and Business Continuity arrangements are strengthened. By March 2017, the Council received assurance that the actions identified to address the disaster recovery and business continuity risks had been implemented. These remain, to date, untested with plans to undertake 'live' tests in the autumn of 2017. This will provide assurance over the mitigation of these key risks. Internal Audit will be involved in assessing the outcome of these tests once complete. However, at this stage, we have no assurance that these arrangements would be adequate. Therefore, we will continue to monitor the outcome of the testing of the arrangements.
2.	✓	Physical Controls Physical controls in relation to IT hardware for backup and replication of systems, specifically enhancement to air conditioning and fire suppression for servers have not yet been resolved. The Council has moved the back-up data centre from Wem to Nuneaton which has largely mitigated these issues. This work was completed in the summer and has not yet been reviewed.	<ul style="list-style-type: none"> The transfer of back up services to Nuneaton is in place and controls have been established to ensure that back ups are being maintained and would support the Council in the event of a system failure. The testing of these arrangements will be included in the 'live' tests planned for Autumn 2017. Therefore, as for the issue raised above, we currently have no assurance that these arrangements would be adequate, and so will continue to monitor the outcome of the testing later this year.
3.	✓	Sales Ledger As identified by Internal Audit, there are significant and fundamental weaknesses with the policies and procedures in the collection of overdue debt and as a consequence, aged debt has increased in 2015/16.	<ul style="list-style-type: none"> The aged debt level has decreased by £0.632m between 31 March 2016 and 31 March 2017. Work has been undertaken to review aged debt during the year and write off in bulk that which is deemed uncollectable. Work continues on developing the Corporate Credit Policy which is key to managing aged debt effectively. The implementation of the Enterprise Resource Planner System to replace the existing financial system will necessitate a completely new set of procedures and will be in part driven by this credit policy. A greater level of automation and workflow will allow focus on a more tailored approach to recovery based on the service being provided. At the same time improvements to billing will continue to be worked on as these have a direct impact on debt levels.

Assessment

- ✓ Action completed
- ✗ Not yet addressed

Adjusted misstatements

There were no misstatements noted during the course of the audit which required an adjusting journal entry to be posted.

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

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	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1	Testing of debtors suggested that the debtors control account was overstated by £543k. This is an extrapolated error based upon the statistical sample we tested).	N/A	DR Provision 543k CR Debtors control account £543k (Extrapolated error)	Balance not significant
	Overall impact	£nil	£543k	

Misclassifications and 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	3,911	Note 21; debtors adjusted from £22,417k to reflect actual value £18,506k	No effect – disclosure only
2	Disclosure	722	Related parties; two entities were included within the related parties note which did not feature in member declarations.	No effect – disclosure only
3	Disclosure	various	Financial instruments; amendments made to the disclosures within note 20 relating to soft loans, and other loans and receivables.	No effect – disclosure only
4	Disclosure	various	In additional to the issues noted above, there have been a number of amendments made to address minor inconsistencies and disclosure improvements.	We are satisfied that none of these items is individually significant enough to warrant reporting to the Audit Committee on an individual basis.

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Disclosure issues

Adjustment type		Value £'000	Account balance	Impact on the financial statements
1	Disclosure	28,230	Exceptional revaluation gain shown is disclosed as a separate line on face of CIES. This should be included within the HRA line so that the disclosed figure matches the figure within the HRA. The Council considers that including this within the HRA line would be misleading for the reader as it would lead to negative expenditure in the HRA and so consider that it is more appropriate to disclose this as an exceptional item on a separate line.	Nil net effect – disclosure change only

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness. We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The scale of financial challenge facing the Council in the short to medium term
- The level of risk the Council is accepting and mitigating in relation to infrastructure and business continuity plans

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 27 to 30.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

In summary, we have concluded that the Council has adequate plans in place to deliver breakeven for 2017/18 and 2018/19. There are sufficient reserves to cover any financial shortfalls in savings or any unexpected reductions in income or funding. There are significant risks in relation to financial sustainability for 2019/20 which the Council has already highlighted in its financial strategy.

If Members make appropriate and calculated decisions now, particularly in relation to service reductions and income generation, they can ensure that the Council is well placed to take further opportunities as they arise going forward. The Council needs to ensure that it remains open to new ideas and has an agile mind-set embedded within its culture.

On this basis, we have concluded that we are satisfied that the Council has appropriate arrangements in place in relation to financial sustainability for the short-term, but there are significant risks in the medium to longer-term which the Council should give its immediate attention.

The text of our report, which confirms this can be found at Appendix B.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Financial resilience over the medium to long term</p> <p>Despite opting to increase Council Tax by the maximum available rate, the Council is required to identify savings to close a funding gap of some £76.5 million by 2019/20. This is in addition to a significant savings program. Achieving the required efficiencies will be extremely challenging.</p> <p>In particular, the growth in Adult Social Care and the costs of other statutory responsibilities are not affordable under the current funding model in place.</p> <p>In the short to medium term, the Council is proposing to close its forecast budget gap of £40 million to 2018/19 by fully utilising the earmarked reserves.</p> <p>There is a significant risk that the Council's financial position will impact on service delivery, both statutory and non-statutory in future years.</p> <p>We also note that the health economy has a significant deficit and has not made the required progress in delivering service reconfiguration.</p>	<p>We reviewed the Council's Medium Term Financial Strategy (MTFS) and monthly financial monitoring reports, assessing the assumptions used.</p> <p>We considered the robustness of the Council's delivery plans and its reporting arrangements for the MTFS.</p> <p>We considered the impact of adult social care costs and the wider health economies finances on the Council.</p>	<p>The Council's revenue position for 2016/17 delivered a net underspend of £0.894 million. This was delivered through non-recurrent savings across a number of service areas.</p> <p>The latest reported position for the 2016/17 savings was in the Period 11 Monitor and was £2.591 million 'red-rated' and £20.464 million 'green-rated'. The outturn position in relation to the 2016/17 savings was £2.197 million 'red-rated' against the original target of £23.055 million. Adult Services and Children's Services have the greatest 'red-rated' savings.</p> <p>For 2017/18 the Council has set a revenue budget of £206 million and has programmed savings of £15.026 million. We have reviewed these savings plans and are satisfied that the Council is on course to deliver the plans. Financial information reported to Cabinet on 6th September 2017 noted that £12.225 million of the savings were 'green-rated' indicating that they were fully developed and in place. £2.453 million of savings remain 'red-rated' and the Council is working hard to develop plans to deliver these. Children's services remains the service directorate with the greatest 'red-rated' savings at quarter 1.</p> <p>Reserves are also at an appropriate level. The General Fund balance moved from £18.370 million at 1 April 2016 to £14.698 million at 31 March 2017. This included a shift of £5 million to the Finance Strategy Reserve to support planned actions as a result of future financial pressures. The General Fund balance at 31 March 2017 of £14.698 million is above the risk based target for 2016/17 of £12.325 million. Earmarked reserves have also increased from £60.841 million to £63.860 million. This includes £28.601 million of Financial Strategy Reserve.</p> <p>Looking ahead, the Council has significant financial challenges. There is a reported funding gap of £76.606 million over the next three years. This comprises £16.187 million (2017/18), £23.822 million (2018/19) and £36,597 million (2019/20). In accordance with the financial strategy, the Council will be using one off funding to close the funding gap between 2017/18 and 2019/20. This is a mixture of one off grant funding and use of reserves. This will result in the Financial Strategy reserve reducing to £0.5 million by 2019/20. Other Earmarked reserves are expected to fall to £17m over the coming years to support the Council's on-going delivery of services. The general fund reserve is expected to remain at current levels for the foreseeable future although the risk based target increases significantly above this level in 2019/20. This reflects the fact that the funding gap has not been closed in that financial year, and the need for the Council to have a robust financial plan in place by this time.</p> <p>We have reviewed the Council's financial plans and are satisfied that the use of one of grant funding and reserves will provide the Council with financial stability to and including 2018/19. The challenge becomes much more significant into 2019/20 and the Council have reported a financial gap of £21 million in 2019/20.</p>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions			
<p>Financial resilience over the medium to long term</p> <p>Despite opting to increase Council Tax by the maximum available rate, the Council is required to identify savings to close a funding gap of some £76.5 million by 2019/20. This is in addition to a significant savings program. Achieving the required efficiencies will be extremely challenging.</p> <p>In particular, the growth in Adult Social Care and the costs of other statutory responsibilities are not affordable under the current funding model in place.</p> <p>In the short to medium term, the Council is proposing to close its forecast budget gap of £40 million to 2018/19 by fully utilising the earmarked reserves.</p> <p>There is a significant risk that the Council's financial position will impact on service delivery, both statutory and non-statutory in future years.</p> <p>We also note that the health economy has a significant deficit and has not made the required progress in delivering service reconfiguration.</p>	<p>We reviewed the Council's Medium Term Financial Strategy (MTFS) and monthly financial monitoring reports, assessing the assumptions used.</p> <p>We considered the robustness of the Council's delivery plans and its reporting arrangements for the MTFS.</p> <p>We considered the impact of adult social care costs and the wider health economies finances on the Council.</p>		2017/18	2018/19	2019/20
		Original gross budget requirement	£590,672,245	£579,536,856	£584,478,367
		Inflationary growth and demography	£12,614,942	£9,838,226	£10,284,967
		Specific grant changes between years	-£6,307,882	-£188,526	-£3,412,855
		Adult Social Care grant removed	£1,835,000	£0	£0
		Other	-£4,251,425	-£1,085,117	£0
		Savings required	-£15,026,024	-£3,623,072	£0
		Total Expenditure	£579,536,856	£584,478,367	£591,350,479
		Income	-£563,349,506	-£560,656,301	-£554,753,893
		Gap in year	£16,187,350	£23,822,065	£36,596,586
		One off funding to be used (releasing reserves)	£16,187,350	£23,822,065	£15,090,560
		Remaining gap	£0	£0	£21,506,026
<p>We consider that the continued use of one off funding and reserves is high risk, but note that the financial strategy includes several other elements:</p> <ul style="list-style-type: none"> Digital Transformation Programme – procuring a new payroll, ledger and HR system providing cashable and non-cashable savings. These were not validated when the financial strategy was prepared and so are not included. Identifying and capturing the non-cashable savings will be key. Commerciality – improving income generation through fees and charges and using the Capital Investment Board to identify further commercial investments to generate income. There are currently 23 'projects' in the pipeline to feed immediate and longer term income. Economic Regeneration – covering both the wider economic regeneration and shorter-term investments which support local regeneration, and income generation. <p>There are currently 23 commercial and economic regeneration projects in the pipeline to feed immediate and longer term income and cost reduction. The timescales to deliver these programmes are short, especially as some of the plans to increase income will take a long period to come to fruition. We also consider that the savings planned for 2018/19 (£3.6 million) and 2019/20 (£0) are low and do not represent the scale of service cuts required to deliver financial sustainability. A revised Financial Strategy setting out first iteration proposals to close the funding gap in 2019/20 and beyond is due to be presented to Cabinet before the end of the calendar year.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>					

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>Replacement of IT infrastructure / business continuity</p> <p>Previous reviews, by external audit, internal audit and other stakeholders, have identified a requirement for the Council to design and implement a business continuity and disaster recovery strategy to mitigate the risk of a severe IT failure or damage to systems through a catastrophic event. This should be supported by a program to replace outdated IT infrastructure. Failure to achieve this represents a significant risk to the ongoing functioning of the Council.</p>	<p>We reviewed the risk assurance frameworks established by the Council in respect of IT infrastructure to establish how the Council is identifying, managing and monitoring these risks.</p> <p>We will consider the longer term IT infrastructure plans and how these are linked to supporting the long term vision of the Council in relation to service provision.</p>	<p>There has been a significant weakness in IT infrastructure and business continuity arrangements within the Council for several years. The Head of Internal Audit Opinion has been qualified due to weaknesses in this area for the past five years. The Council has had a significant turnover of Senior Leadership within the IT directorate resulting in a lack of clear vision being communicated and implemented. In October 2016, the Council allocated responsibility for IT to the Head of Human Resources and Development. Following this, the 'IT strategy 2016-19' was presented and approved by Cabinet in December 2016. This prioritised the overall vision, but also set out how the more pressing challenge of implementing adequate Business Continuity and Disaster Recovery Plans would be addressed.</p> <p>The Head of Human Resources and Development is the Senior Responsible Officer (SRO) for the overall Digital Transformation Programme, of which IT infrastructure and business continuity are a key part. There are four strands, (Business Transformation, Social Care, Technology, Digital Programme) which are run as individual projects which includes, meetings, minutes and risk registers. These feed into the over-arching Transformational Board. Our review has identified commonalities between the detailed project risk registers and the Corporate Risk Register where appropriate.</p> <p>Due to the scale of the risk, Digital Transformation is now reported to Audit Committee so that this Committee has oversight of the progress being made and holds the Head of Human Resources and Development to account. The June 2017 Audit Committee was informed that the overall project would reduce duplication, increase productivity on the front line and that jobs would change rather than be removed, due to the differing configuration being implemented for back office services. The overall aim is to bring information together in what is being referred to as 'one vision of the truth'. This will be a key outcome for the overall efficiency of the Council going forward.</p> <p>In relation to IT Infrastructure, the Council identified that the server capacity and locations were not adequate and that there was hardware (mainly desktop computers) which required replacing to ensure that the Council did not lose data in the event of infrastructure failure. As a result of this, additional server capacity was purchased for both Shirehall and Nuneaton, as well as improvements made to the physical environment. The Council also replaced the most at risk desktop computers, mainly with laptops to facilitate agile working going forward, but with another desktop computer where a business case was made. The Council replaced c1200 computers as a result of this exercise. The improvements made to the servers, which included the relocation of back up facilities from Wem to Nuneaton, supported the additional back up arrangements which were put in place to support business continuity arrangements.</p> <p>By March 2017, the Council received assurance that the actions identified to address the IT infrastructure and business continuity risks had been implemented. However, the business continuity plans remain, to date, untested with plans to undertake 'live' tests in the autumn of 2017. This will provide assurance over the mitigation of these key risks. Internal Audit will be involved in assessing the outcome of these tests once complete. Given that this has not been fully tested in a live environment as yet, this remains a risk for the Council.</p>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>Replacement of IT infrastructure / business continuity</p> <p>Previous reviews, by external audit, internal audit and other stakeholders, have identified a requirement for the Council to design and implement a business continuity and disaster recovery strategy to mitigate the risk of a severe IT failure or damage to systems through a catastrophic event. This should be supported by a program to replace outdated IT infrastructure. Failure to achieve this represents a significant risk to the on-going functioning of the Council.</p>	<p>We reviewed the risk assurance frameworks established by the Council in respect of IT infrastructure to establish how the Council is identifying, managing and monitoring these risks.</p> <p>We will consider the longer term IT infrastructure plans and how these are linked to supporting the long term vision of the Council in relation to service provision.</p>	<p>As a result of the Council developing a longer term IT strategy, they have identified that the Digital Transformation Project may over-take the requirement for the current Business Continuity and Disaster Recovery arrangements and IT services may be managed and delivered in a different way. There is an expectation that the Council will move to cloud based systems which will shift any infrastructure risk to a 3rd party. However, the current risk was sufficiently significant to warrant the immediate action taken and the testing of these arrangements will be key for providing the Council with greater ICT confidence in the short to medium term.</p> <p>The Council consider that the Digital Transformation Programme will be key to delivering reform by driving more responsive, flexible and joined up systems. It is anticipated that this will remove duplication and increase productivity. The Council has now signed with preferred suppliers for two systems within Phase 1 with other in the pipeline. Phase 2 systems for replacement have not been fully scoped as yet. There is a focus on better integration between systems, allowing greater flexibility for data sharing across the Council to support data interrogation. A challenge for the Council will be the transition from the old IT systems and hardware to the new as the project is expected to take several months and dedicated resource from the existing staffing body. There will be a requirement to keep existing systems and hardware operational until the new are fully procured and implemented.</p> <p>The Council will also require a cultural change to support innovation and agile working from the new Digital solutions. There is a risk that departments will redesign the system they already have and not focus on the required outputs and the outcomes for the customer.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

The Council should:

- Consider what services they can afford to deliver going forward
- Challenge the level of savings identified within the financial plan to ensure that appropriate ambition is demonstrated
- Provide Members with sufficient progress updates against savings plans to enable a clear understanding of whether they will be delivered in line with the budget
- Ensure that any issues identified by the live system and business continuity testing are addressed as a priority
- Quantify the benefits and savings from improved productivity of the new systems to ensure that they are captured and delivered. Without identifying and quantifying these, it will be difficult for the Council to monitor and report against them and there is a risk that they will be absorbed by other changes in systems

Management's response to these can be found in the Action Plan at Appendix A.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none"> We have not identified any matters that would require a public interest report to be issued
2.	Written recommendations	<ul style="list-style-type: none"> We have not made any written recommendations that the Group or Council is required to respond to publicly
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none"> We have not used this duty
4.	Issue of an advisory notice	<ul style="list-style-type: none"> We have not used this duty
5.	Application for judicial review	<ul style="list-style-type: none"> We have not used this duty

The objection which was raised in August 2016 on the 2015/16 financial statements has been concluded and the certificate closing this audit was issued in July 2017.

We have not received any objections within the statutory inspection period for the 2016/17 financial statements and as such, anticipate concluding the audit for this period when we issue the opinion and VFM conclusion in September 2017.

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Proposed fee £	Final fee £
Council audit	133,845	133,845
Potential additional audit fee	TBC	TBC ¹
Work to respond to 2015/16 Elector's objection	11,671	11,671
Grant certification	11,505	TBC ²
Total audit fees (excluding VAT)	TBC	TBC

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

The audit of the financial statements was delayed due to late working papers and as such, we incurred additional costs. Once the opinion work is complete we will assess the level of additional inputs and agree an additional fee with the Corporate Director (Resource). This fee variation will then need to be approved by PSAA who will consider the level of additional work and the additional fee proposed. Once this is approved we will communicate it to the Audit Committee.

Key

1 = fee still to be assessed and agreed with the Council and PSAA

2 = audit work incomplete and so final fee cannot be confirmed

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table below summarises all non-audit services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• Audit of West Mercia Energy (fee being split equally between Shropshire, Herefordshire and Worcestershire)	4,333
• Audit of subsidiary – ip&e Ltd.	8,500
• Audit of subsidiary – Shropshire Towns and Rural Housing (STaRH)	
• Grant work outside the PSAA regime 2015/16	6,975
• Grant work outside the PSAA regime 2016/17	TBC
Non-audit services	
• CFO insights license	10,000
• Tax work for ip&e Ltd	2,500

Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

	Service provided to	Fees	Threat?	Safeguard
STAR Housing Ltd.	N/A	£0	No	N/A
West Mercia Energy	N/A	£0	No	N/A
ip&e Ltd.	Tax services	£2,500	No	N/A
	TOTAL	£2,500		

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

ISA (UK&I) 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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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 Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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.

Our communication plan	Audit Plan	Audit Findings
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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Matters in relation to the group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

Appendices

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A. Action Plan

B. Audit Opinion

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	Although the provisions in place are adequate, the Council should ensure that it resolves backlog issues and ensures controls are regularly performed in order to reduce unnecessary expenditure of resources on chasing irrecoverable balances.	Medium	Work has been undertaken to review aged debt during the year and write off in bulk that which is deemed uncollectable. Work continues on developing the Corporate Credit Policy which is key to managing aged debt effectively. The implementation of the Enterprise Resource Planner System will necessitate a completely new set of procedures which along with improvements to billing will have a direct impact on debt levels.	TBC
2	Documented policies and procedures addressing batch administration processes and related control requirements within ABS Efinancials should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them. Once established, these documents should be periodically, formally reviewed (at least annually) to ensure their continued accuracy and appropriateness. Examples of topics commonly addressed within batch administration policies and procedures include batch monitoring, batch job error handling / resolution, change control over batch jobs and schedules, and descriptions of jobs scheduled. Typically, a single set of batch administration policies exist to address high-level control requirements as defined by the organisation's IT operations or compliance group while procedures exist for individual systems which outlining batch-related processes and controls unique to that system.	Medium	This is strictly a finance services process however, as the Council moves to a more Software as a Service (SaaS) model via our Digital Transformation Programme (DTP), it is possible that adoption of a unified policy will be easier to implement across the Council. Furthermore, as part of the DTP, the location of teams managing various pieces of software is being scrutinised and the requirements of this audit will be made known to those making these decisions; in order to find a suitable solution.	TBC

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
3	The IT Security Policy should be updated and approved by the relevant management body within the Council. A process to review the IT Security Policy on a periodic basis should also be introduced. The roll-out of the new policy should be supported by appropriate processes to ensure that staff are aware of both the contents of the Policy and their obligations which are contained within it.	Medium	The IT security Policy has been re-drafted and agreed with relevant teams. This will offer updated policies and procedures that are in-line with current national advice. The policy will be revised again in May 2018 to take account of changes required GDPR. Information Governance will be responsible for ensuring staff are aware of the revised policy. Awareness raising through training sessions and the e learning platform are being rolled out, including as part of other training initiatives. This will help to support staff to understand the importance of IT security. This training will be in addition to existing offerings, such as the information governance, level one and two compulsory training that is currently undertaken. An awareness session for Cabinet is also being planned for early October 2017.	TBC
4	Security administrators of ABS Efinancials, ResourceLink and Active Directory should be provided with (a) timely, proactive notifications from HR of leaver and mover activity for anticipated activity and (b) timely, per-occurrence notifications for unanticipated mover and leaver activity. Security administrators of ABS Efinancials, ResourceLink and Active Directory should then use these notifications to either (a) end-date user accounts associated with anticipated leavers or (b) immediately disable user accounts associated with unanticipated leavers. These security administrators should then use these notifications amend and/or remove logical access belonging to movers and leavers.	Medium	Efforts have been made by the referenced departments to address this issue, however due to a lack of a common unique identifier of account between the three departments (HR – payroll number, ICT – CC number and Finance – a combination of the two methods depending on when the account was created) this work has proved difficult to progress. The ICT department blocks network access of any accounts which are not utilised for two months which will limit the potential for unauthorised access from staff who no longer work for the authority, as they will not be able to log in to the network, and as such will not be able to access the Finance or HR systems. The procurement of an ERP solution to replace the current Finance and HR systems. This has been purchased with a Hire to Retire module, which will address this issue.	TBC

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
5	It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Active Directory and ResourceLink. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).	Medium	The ICT department is currently trialling auditing software which will allow this type of report to be generated and sent to department managers on a regular basis. When the appropriate solution has been identified a business case will be submitted to the Infrastructure and Architecture project board for approval/allocation of appropriate funds. It is estimated that this system will be in place by December 2017. Until then a full review of access is just being completed.	TBC
6	Given the criticality of data accessible through Active Directory, logs of information security events (i.e., login activity, unauthorised access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.	Medium	Due to the large volume of logs created by Active Directory it is not feasible for these to be continually reviewed by staff. They are reviewed when an issue is identified or suspected (with the appropriate inclusion of the Councils Audit team). As part of the ongoing work to review and enhance the Councils security the ICT department will research and seek to procure a software tool which will allow automated reviews of these logs, and will report anomalies to appropriate individuals so they can investigate as appropriate. This work will be completed by December 2017.	TBC
7	Consider what services the Council can afford to deliver going forward.	High	Between August 2017 and February 2018 the Council will be further developing the financial strategy. This has commenced with an in depth review of growth and resources assumptions which will be followed by a zero based approach to developing additional savings plans. The savings proposals developed will be far reaching and will be informed by the discretionary and statutory status of existing services as well as council priorities going forward.	TBC

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
8	Challenge the level of savings identified within the financial plan to ensure that appropriate ambition is demonstrated.	High	The zero based approach to developing additional savings plans will ensure that plans are far reaching and ambitious.	TBC
9	Provide Members with sufficient progress updates against savings plans to enable a clear understanding of whether they will be delivered in line with the budget.	Medium	Savings progress will be reported to Members via the quarterly revenue and capital monitoring reporting process. Responsible officer leads and relevant portfolio holders will be clearly identified and progress against delivery will be rated Red, Amber, Green.	TBC
10	Ensure that any issues identified by the live system and business continuity testing are addressed as a priority.	High	We will continue to monitor the outcome of the testing arrangements and will address any actions required as a result.	TBC
11	Quantify the benefits and savings from improved productivity of the new systems to ensure that they are captured and delivered. Without identifying and quantifying these, it will be difficult for the Council to monitor and report against them and there is a risk that they will be absorbed by other changes in systems.	Medium	Following the design phase work will commence to quantify the anticipated savings and improved productivity that is anticipated to be delivered by the Digital Transformation programme. This work will feed into the financial strategy and will be measured against following implementation.	TBC

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

B: Audit opinion

We anticipate we will provide the Group with an unmodified audit report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL

We have audited the financial statements of Shropshire Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Core Financial Statements (Comprehensive Income & Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet and the Cashflow Statement), the Notes to the Core Financial Statements, the Group Accounts (the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Adjustments between Group Accounts and Authority Accounts in the Group Movements in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement and the Notes to the Group Accounts), the Housing Revenue Account (the Housing Revenue Account’s Income and Expenditure Statement, the Movement on the Housing Revenue Account’s Statement and the Notes to the Housing Revenue Account) and the Collection Fund (the Collection Fund and the Notes to the Collection Fund).

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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority’s members those matters we are required to state to them in an auditor's report and for no other purpose. 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 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the “Code of Audit Practice”) 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 Narrative Report, the Group Accounts Introduction and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, the Group Accounts Introduction and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements for securing 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that 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 2017.

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 has put in place proper arrangements for securing 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 issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.



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