Date:	Thursday, 18 September 2014
Time:	9.30 am
Venue:	Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND
Contact:	Liz Sidaway, Committee Officer Tel: 01743 252885 Email: liz.sidaway@shropshire.gov.uk

AUDIT COMMITTEE

TO FOLLOW REPORT (S)

13 External Audit: Shropshire Council Audit Findings 2013/2014 (Pages 1 - 36)

The report of the External Auditor Grant Thornton is to follow.
Contact: Grant Patterson 0121 232 5296

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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.

Grant Thornton

The Audit Findings for Shropshire Council

Year ended 31 March 2014

11 September 2014

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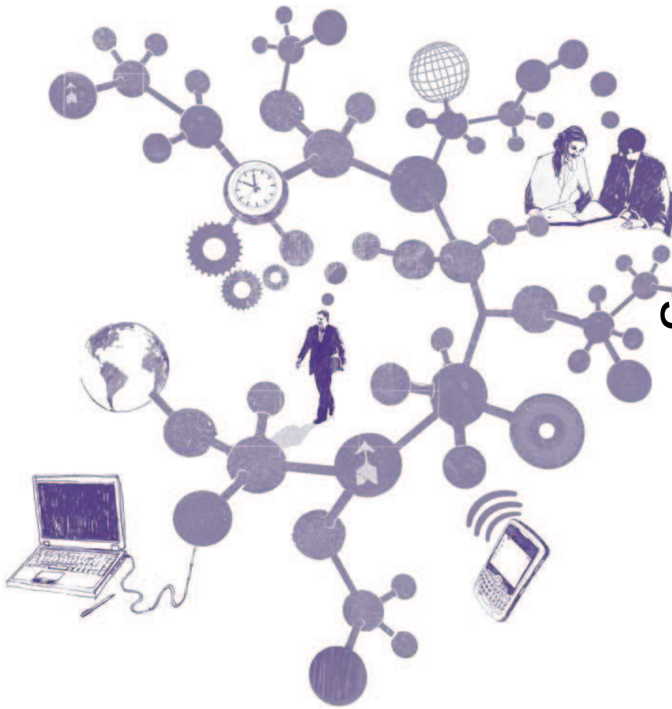

Agenda Item 13

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

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

Section 1: Executive summary

Page 3

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Shropshire Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

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

Introduction

In the conduct of our audit we have made minor changes to our planned audit approach which we communicated to you in our Audit Plan dated 27 March 2014 in respect of operating leases and operating expenditure. These are detailed on page 7.

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

- evidencing of invoices relating to schools expenditure;
- evidencing information to support a sample of redundancies;
- completion of final cut off testing;
- agreement of the disclosure relating to the fair value of the PFI liability;
- final Engagement Lead review of work;
- review of the final version of the financial statements;
- review of final version of the Annual Governance Statement;
- obtaining and reviewing the final management letter of representation;
- updating our post balance sheet events review, to the date of signing the opinion; and
- review of the Council's Whole of Government Accounts submission.

Key issues arising from our audit

Financial statements opinion

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable. As at 10 September 2014, and subject to the completion of the outstanding work described above, we expect to issue an unqualified opinion on the financial statements.

We have identified no adjustments affecting the Council's reported financial position. The greatest changes related to additional narrative disclosure requirements either to comply with the Code of to make the business of the Council more easily understood by the reader of the accounts.

We have identified two non-trivial adjustments in respect of the PFI disclosures and the consolidation of West Mercia Energy within the Group Income and Expenditure Account that officers are not proposing to amend the 2013/14 Statement of Accounts for. The audit findings regarding the PFI disclosures are that these differences relate to a different PFI calculation model being used to assess the estimate. The values relating to these two adjustments are not material. Details are given on page 18 and 19. The Audit Committee is asked to approve management's proposed treatment and recognition of this and the associated disclosure within the Letter of Representation.

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

- The standard of the draft accounts and supporting working papers provided by the Council was good.

- The Council has appropriately accounted for the prior period adjustments required by the changes to the international accounting standard IAS19 - Employee Benefits.

- We are satisfied that the overall approach taken by the Council to assessing provisions in respect of National Domestic Rates (NDR) is reasonable. We requested additional disclosures within the Contingent Liabilities note on appeals not yet lodged and are seeking confirmations in the Letter of Representation (LoR) to support the Council's view that it is not possible to arrive at a reliable estimate to the value of potential appeals not yet lodged.

- The Council carries out a rolling programme of asset valuations which ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. We are satisfied that the Council has been able to demonstrate that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014 and will be seeking confirmation on the assumptions through the Letter of Representation. In our view, however, this rolling programme does not fully meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously.

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

Value for Money conclusion

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

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

Whole of Government Accounts (WGA)

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

Controls

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

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

Our work has not identified any control weaknesses which we wish to highlight for your attention excepting two relating to IT controls where arrangements could be strengthened.

We also draw your attention to a qualitative issue identified relating to the process for collecting Members' declarations of interests.

Further details are provided within section 2 of this report.

The way forward

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

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

On 22 August 2014 we received a letter from a local government elector wishing to exercise their statutory rights to object to the Council's accounts. The matter is in respect of taxi license fees. We are currently investigating the matter and our work will not be completed by 30 September 2014. We will not be able to certify the audit closed until this work is concluded.

Acknowledgment

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

Grant Thornton UK LLP
September 2014

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Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 27th March 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 27 March 2014 except for the areas highlighted below:

- Operating leases were below materiality and so did not require sampling to gain the required assurance.

- Due to the assurance gained from other testing, we did not consider that it was efficient to carry out trend analysis for operating expenditure payments due to their irregular nature and the fluctuations over short periods of time. The substantive procedures planned and undertaken provided greater assurance.

Audit opinion

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

Audit findings against significant risks

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

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	We have undertaken the following work in relation to this risk: • Review of revenue recognition policies • Testing of revenue recognition policies • Performance of substantive testing on material revenue streams • Review of unusual significant transactions	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	We have undertaken the following work in relation to this risk: • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

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Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid Revaluation measurements not correct PPE improperly expensed	We have undertaken the following work in relation to this risk: • Documented the processes and controls in place around the accounting for Property, Plant and Equipment. • Carried out a walkthrough test to confirm the operation of controls around completeness and valuation which we consider to present a risk of material misstatement to the financial statements. • Obtained a schedule summarising the capitalisation policies and reviewed for appropriateness and consistency of accounting method with the prior year. • Considered progress for the 2013/14 capital programme and identified reasons for any slippage. • Undertaken tests of detail on property, plant & equipment included in the financial statements including: – Agreement of valuation information disclosed to asset register and valuer's report. – Agreement of disclosures in the financial statements to the asset register. – Agreement of how schools balances have been accounted for. – Agreement of a sample of finance leases to supporting documentation. – Agreement of significant assets to deeds / ownership documentation. – Testing of a sample of additions and disposals.	Our audit work has not identified any significant issues in relation to the risks identified. Minor amendments to disclosures have been made to improve the quality of the financial statements. We have commented upon the Council's approach to revaluations at page 15.
Welfare expenditure	Welfare benefit expenditure improperly computed	We have undertaken the following work in relation to this risk: • Documented the processes and controls in place around the accounting for welfare expenditure. • Carried out a walkthrough test to confirm the operation of controls around valuation which we consider to present a risk of material misstatement to the financial statements. • Undertaken testing in accordance with the methodology required to certify the housing benefit subsidy claim (HB COUNT process).	Our audit work at this time has not identified any significant issues in relation to the risks identified.

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Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • Documented the processes and controls in place around the accounting for operating expenses. • Carried out a walkthrough test to confirm the operation of controls around completeness which we consider to present a risk of material misstatement to the financial statements. • Documentation of the processes in place for month and year end accruals. • Undertaken tests of detail on operating expenses included in the financial statements including: – Testing of a sample of operating expenses covering the period 1 April 2013 to 31 March 2014 to ensure they have been accurately accounts for and are in the correct period. – Testing of the completeness of the subsidiary interfaces and control account reconciliations. – Consideration of any unrecorded liabilities and agreement to supporting documentation. – Consideration of any prepayments and agreement to supporting documentation. – Cut off testing around the year end to ensure transactions are in the correct financial period.	Our audit work has not identified any significant issues in relation to the risk identified.

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
Employee remuneration	Employee remuneration accrual understated Payroll tax obligations understated	• We have documented the processes and controls in place around the accounting for employee remuneration. • We have carried out a walkthrough test to confirm the operation of controls around completeness which we consider to present a risk of material misstatement to the financial statements. • Undertaken tests of detail on employee remuneration included in the financial statements including: – Testing of the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements. – Review of monthly trend analysis of the total payroll. – Testing of a sample of employee remuneration payments covering the period 1 April 2013 to 31 March 2014 to ensure they have been accurately accounted for in the correct period. – Testing of a sample of payments made in April and May 2014 to ensure payroll expenditure is recorded in the correct year. – Review of IAS 19 disclosures and agreement to actuarial information. – Agreement of employee remuneration disclosures in the financial statements to supporting evidence, in particular chief officers' remuneration and any termination payments that have occurred in year.	Our audit work has not identified any significant issues in relation to the risks identified. Minor amendments to disclosures have been made to improve the quality of the financial statements.

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
Housing Rent Revenue Account	Revenue transactions not recorded	• We have documented the processes and controls in place around the accounting for Housing Rent Revenue Account. • We have carried out a walkthrough test to confirm the operation of controls around completeness which we consider to present a risk of material misstatement to the financial statements. • Performance of predictive analytical review on dwelling rents to confirm our expectation of the rental figure in the financial statements. • Undertaken tests of detail on the housing rent revenue account included in the financial statements including: – Agreement of housing stock numbers to supporting records. – Review of year end reconciliations between the rent system and the General Ledger. – Review of revenue recognition policies for rental income. – Review of the level of credit balances on rent accounts compared to previous years, and corroborate explanations for any significant movements. – Review of housing revenue account debtors for any large or unusual balances. – Agreement of housing revenue account disclosures in the financial statements to supporting information.	Our audit work has not identified any significant issues in relation to the risks identified.

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Group audit scope and risk assessment

ISA 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
West Mercia Energy Joint Committee	No	Analytical	N/A	As a non-significant component we would be able to undertake analytical procedures to gain assurance. However, as we are also the auditor's of WME we have been able to place reliance upon the full scope Audit Commission Code of Practice audit performed by Grant Thornton.	Our audit work has identified issues in respect of the consolidation methodology adopted by the Council. This has been reported in the unadjusted errors and we request representations in the Letter of Representation to confirm the accounting treatment adopted for West Mercia Energy (WME).
South Shropshire Leisure Ltd	No	Analytical	N/A	Desktop review performed by GT UK.	Our audit work has not identified any issues in respect of the consolidation of South Shropshire Leisure Ltd.
Shropshire Towns and Rural Housing	No	Analytical	N/A	As a non-significant component we would be able to undertake analytical procedures to gain assurance. However, as we are also the auditor's of STARH we have been able to place reliance upon the full scope UK statutory audit performed by Grant Thornton.	Our audit work has not identified any issues in respect of the consolidation of Shropshire Towns and Rural Housing.
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 consolidation of ip&e Ltd.

Issue for 2014/15

Assessment	Issue and risk	Recommendations
Amber	The accounting standards governing the disclosures around Group Accounts change in 2014/15. The Council will need to ensure that they comply with the requirements of IRFS 10, 11 &12 and IAS 27 & 28 in the 2014/15 financial statements.	The Council should engage with Audit at an early stage to ensure that group disclosures meet the requirement of the new reporting standards which come into effect in 2014/15.

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates - general	• Key estimates and judgements include: – Future levels of government funding – Asset valuations – Provisions – Pensions liability – Recovery of Council tax and other debt arrears.	We have not identified any issues around accounting judgements and estimates which we wish to bring to your attention.	Green ●
Judgements and estimates - NDR	• Local authorities are liable for successful appeals against business rates and should recognise a provision for their share of the best estimate of the amount that businesses have been overcharged up to 31 March 2014. This is disclosed on pages 67 and 68 of the financial statements. • Both IAS 37 (para 25) and the Code (para 8.2.2.20) refer to the fact that it is only in extremely rare cases that a reliable estimate cannot be made. However, there are some practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging: – the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA – some businesses may have been overcharged but not yet made an appeal. • The Council has not included any provision for potential future appeals. In such an instance, the rationale should be supported both in terms of disclosures and the Council providing appropriate evidence to those charged with governance and auditors.	The Council has a dedicated NDR appeals officer who has been monitoring appeal success on a monthly basis for some time. Local knowledge of the major businesses in the area and a review of national appeals statistics has been used to inform the provision included in the accounts. The Council has not included any provision for potential future appeals, but has used its detailed knowledge of the local business profile and appeals received to date to inform its assessment. It has concluded that it cannot arrive at a reliable estimate for the value of appeals not lodged at 31/3/14 and has disclosed NDR appeals as an area of estimation uncertainty in the accounts (see page 40). Overall, we are satisfied that the approach taken by the Council and the disclosures in the accounts are reasonable. However, we requested additional disclosure within the Contingent Liabilities note on appeals not yet lodged and are seeking confirmations in the Letter of Representation to support the Council's view that it is not possible to arrive at a reliable estimate to the value of potential appeals not yet lodged.	Green ●

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

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Accounting policies, estimates & judgements (cont)

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates - PPE	• Page 54 of the accounts sets out the Authority's rolling programme of revaluations. This shows that the date of valuations vary between 31 March 2010 and 31 March 2014. This approach is similar to many other authorities and we are satisfied that the Council has been able to demonstrate that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014. In our view, however, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously.	The Council has included full disclosure in the accounts on the approach taken and has been able to demonstrate that the carrying amount of assets does not differ materially from the fair value at 31 March 2014. However, in our view the approach taken is not fully in line with the requirements of the Code and of IAS16 which requires the revaluation of each class of assets to be completed within a 'short period'. We would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.	Amber ●

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Assessment

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

Other disclosures

Accounting area	Summary of policy	Comments	Assessment
PFI disclosures	• Contingent rents should be disclosed consistently over the Council's PFI schemes. This is more usually disclosed within the interest element. However, the Council has disclosed it within the interest element for the Waste PFI, but the service charge element for the QICS scheme.	The Council should consider whether the disclosures relating to PFI are sufficient.	Amber
Revenue recognition – accounting policies	• Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. • Council tax and NDR – Whilst the Authority has disclosed estimates and judgements made in relation to Council Tax and NDR, there is no accounting policy covering these significant changes to the financial statements.	Appropriate policies relating to revenue recognition for Council Tax and NDR have now been included within the financial statements for these areas.	Green
Accounting for schools – accounting policies	• CIPFA LASAAC published the 'Technical Alert – information comments on accounting for schools in local authorities'. This states in paragraph 8 that 'there should be no change to the 2013/14 Code in respect of Accounting for Schools'. It also recommends that 'local authorities set out clearly in their 2012/13 and 2013/14 financial statements, in the summary of significant accounting policies, their approach to accounting for maintained schools' income, expenditure, assets, liabilities and reserves.	These accounting policies need to be consistently applied throughout the complete set of financial statements.' This is also defined in paragraph 3.4.2.17 of the 2012/13 Code. The Authority has not made this disclosure. The Council should consider whether further disclosures in relation to schools I&E policies should be included within the 2013/14 financial statements.	Amber
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any significant issues which we wish to bring to your attention here. We have commented on some minor areas above.	Green

Assessment

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

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Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

There was only one adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position. This only impacted on a disclosure note for Financial Instruments.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
Financial Instruments – Removal of prepayments and receipts in advance from the disclosures in Note 16 • Removed prepayments from debtor figure in 2013/14 (£28,713k) and 2012/13 (£21,834k) • Removed receipts in advance from creditor figure in 2013/14 (£4,352k) and 2012/13 (£3,751k) • Included a reconciliation of Note 16 figures to the balance sheet figures	N/A	N/A	N/A
Overall impact	**£nil**	**£nil**	**£nil**

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but 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:

	Detail	Impact	Reason for not adjusting
1	The accounting models for PFI schemes are highly complex accounting estimates and contains various elements including cost of services, which needs to be apportioned by use in the financial model . The application of the model in apportioning these costs is reported in the Council's accounts. We have assessed the impact of the Council's accounting judgement in this area by modelling the inputs into an agreed Grant Thornton model to help us assess the Council's estimations. The estimates made by the Council and the model used are down to Management's judgement.	In the Balance Sheet, the long term liabilities disclosed in relation to the QICS PFI scheme are £13.076 million. Our model estimates that this should be £14.331 million which provides a difference of £1.255 million. It is considered to be a difference in the Council's accounts between the PFI model used by the Council and the model used by Grant Thornton to assess the estimation the long term liability. This is due to our model including initial capitalised start up costs of £1.714 million in the initial asset / liability value and these not being included by the Council as part of their initial accounting judgements. This is not a material difference but is above triviality and as such we are required to report this. As a result, there are other variances above triviality within the future disclosures. These are as follows: • Future interest costs 11-15 years - £0.646 million overstated • Total future interest costs - £1.876 million overstated • Total future capital repayments - £1.309 million understated	The Council has confirmed that it considers the financial model used to derive the figures in the financial statements to be appropriate, however they will review the Grant Thornton model to confirm the treatment of the initial capitalised start up costs. On the basis that this difference relates to an estimation, and as the sums are considered to be immaterial to the results of the Council and its financial position at the year-end officers are not proposing to amend for this in 2013/14. We are seeking confirmations in the Letter of Representation to support the Council's view that the accounting model used and the figures included within the financial statements are a reliable estimate of the future liabilities of the PFI schemes. The Audit Committee is asked to approve management's proposed treatment and recognition of this and the associated disclosure within the Letter of Representation.
	Overall impact	**£1.255**	

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Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but 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:

	Detail	Impact	Reason for not adjusting
2	The Council has determined that West Mercia Energy (WME) is a jointly controlled entity. The guidance states: 'A jointly controlled entity is incorporated into Group Accounts by either proportionate consolidation or the equity method.' The current disclosures have not been done on line by line basis. However, the Code states in paragraph 2.1.2.7: 'The relevance of information contained in the financial statements is affected by its nature and materiality. Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements.'	The disclosures in respect of WME on the Group CIES are: – Turnover £(17,905k) – Cost of Sales and Operating Expenses £17,384k	The Council has confirmed that WME has used IAS1 to depart from the SERCOP format in the accounts. Therefore this override means a line by line consolidation is not straightforward. The current disclosure does not lead to a change in bottom line or mislead a primary use of the accounts. Showing the net position means we are satisfied that there will not be a material misstatement and is consistent with the guidance notes of the Code. We are seeking confirmations in the Letter of Representation to support the Council's view that the current disclosure and the figures included within the group accounts do not represent a material misstatement and comply with the requirements of the Code.
	Overall impact	**Not Applicable**	

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Misclassifications & disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	n/a	Various	The Council has made a number of additional disclosures which have been summarised in the 'Other disclosures' section.
2	Minor presentational adjustments	n/a	Various	A number of minor presentational adjustments to other areas of the accounts, including IAS 19 – Employee Benefits disclosures.

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Internal controls

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

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

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

	Assessment	Issue and risk	Recommendations
1.	Deficiency ●	**IT security policy acknowledgement** There are currently no processes in place for users to acknowledge the "Acceptable Use of Electronic Service" document, either at the commencement of their employment or periodically after that. This is not explicitly captured through the completion of a signed form and is not listed as a standard item on the induction checklist for managers. There is a splash screen that users are required to click when they log in to their machine each time, however it does not refer to this document. It is important that senior management promotes a culture where users of the information assets are aware of their roles, responsibilities and accountability with respect to the Council's assets. Without such acknowledgement in place, it may make holding a user accountable for their actions difficult.	Management should introduce a process that requires staff to formally acknowledge the security and IT policy in order to ensure they understand the controls and procedures in place that they need to adhere to. This could be an automated process where users must acknowledge a suitably worded network logon warning banner message.
2.	Deficiency ●	**Periodic user access reviews** We were informed that ad- hoc user access rights reviews are undertaken periodically. No formal user access rights reviews are performed on the network to ensure that only authorised staff have access to the network, and the levels of access granted is appropriate for their roles and responsibilities. If user access is not reviewed by management on a regular basis, there is a risk that leavers and unauthorised users may continue to have access to the Council's systems and data. The level of access provided may be disproportionate to roles and responsibilities.	Management should establish a formal documented process for reviewing user access. IT should send out user access rights to line managers to determine if the user access is still relevant an adequate.

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Assessment

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

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Qualitative issues

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

Our audit included consideration of significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. The matters reported here are limited to those issues that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

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

Assessment	Issue and risk	Recommendations
Green ●	Member's declarations of interest. As at 10th September 2014, 1 of the 80 declarations of interest remain outstanding. The Council has compensating controls in place regarding declarations discussed prior to all formal meetings but this annual process strengthens these arrangements. The two outstanding are also not members of the Cabinet or key Authority sub-committees.	The Council should review the process by which declarations of interest are made to ensure 100% compliance without taking a disproportionate amount of officer time.

Assessment

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

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Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit Committee and not been made aware of potential material issues. 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.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representation has been requested from the Council. • In particular, as noted earlier, representations have been requested from management in respect of the unadjusted errors and significant assumptions used in making accounting estimates in relation to the valuation of Property, Plant & Equipment and the approach taken for the calculation of the provision for NDR appeals.
4.	**Disclosures**	• Our review found no material omissions in the financial statements other than those already reported within this report.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

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Section 3: Value for Money

Value for Money

Value for money conclusion

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

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

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

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

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

Key findings

Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

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

- The Council has a strong balance sheet and low levels of debt. The out-turn positions for 2013/14 for both revenue and capital delivered ahead of the financial plans. The outturn for the Revenue Budget for 2013/14 was an underspend of £0.390m, representing 0.06% of the original gross budget of £639 million.
- The level of general fund balance stands at £14.497 million, which is above the anticipated level included within the Council's Financial Strategy but below that previously identified as required by the Head of Finance, Governance and Assurance. Whilst reserve levels are currently projected to marginally fall the level of reserves is still considered reasonable.
- The workforce is diminishing due to voluntary and some compulsory redundancies. However, at this stage, there are no concerns around capacity and no governance issues directly due to staffing levels have arisen.
- The Council has demonstrated a drive and commitment to making changes in response to the recent reductions in Government funding. Service redesign often clears a backlog or raises the level of service provided and so is not delivering planned savings in the early stages. However, it does evidence improved use of resources for taxpayers.
- The majority of the £41.5 million savings required for 2014/15 are being delivered. However, the Council is currently forecasting a deficit of £3 million and so is bringing some savings plans for 2015/16 forward to ensure that they deliver their required out-turn.
- There is a dynamic leadership team in place driving forward a clear vision to move to a Commissioning model. The Council is being proactive about driving out inefficiencies in service s which are going out to tender to ensure that external providers do not gain from the easy wins. Some service redesign has already been delivered successfully and the Council has learned from this experience. Service redesign is customer driven, taking into account the local needs and views to ensure that services delivered are what is wanted by the local community.

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Value for Money

- The Council's governance structure is undergoing a period of change. The pace of change has been driven by the timetable to reduce Government funding. Members, Officers and partner organisations need to ensure that everyone understands the changes and their implications.

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

Challenging economy, efficiency and effectiveness
We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

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

- The Council understands that prioritising resources is both about internal resources and those it has access to through partnership arrangements. Part of the Council's commissioning strategy is to keep money and jobs locally within Shropshire to support the local economy.
- Some service redesign has already been delivered successfully and the Council has learned from this experience. The re-prioritisation of resources is customer driven, taking into account the local needs and views to ensure that services delivered are what is wanted by the local community.
- The Council is considering all vehicles for delivering future services to gain greater efficiencies for the Council's overall position. The overall strategy is clear and the decisions which are being made are consistent with it.
- The Council revised its Constitution arrangements for 2014/15. Our testing identified that decisions were able to be made faster and that the process makes portfolio holders more accountable. Portfolio holders are still on a learning curve with regards to the new Constitution.
- The introduction of the Better Care Fund (BCF) arrangements has seen good leadership within Shropshire. The Health & Wellbeing Board set up the Integrated Transformation Task & Finish Group which includes Senior representatives from the Council and CCG. There is a desire to go further than the BCF minimum requirement and Shropshire are viewing this as an opportunity to develop relationships and integrate working arrangements.
- The Council is starting to successfully roll out a service redesign methodology demonstrating a culture for change. The skills currently provided by the Business Design Team within ip&e Ltd, supported by BrightLake Consultancy are being transferred to Council employees. This STEP arrangement (Service Transformation Enablement Process) will provide a pivotal role in co-ordinating change projects that require a commissioning solution. Undertaking a zero based budgeting exercise after the initial service redesign grasps the opportunity of stripping out any excess from service costs to enable the Council the scope to maximise impact.
- The Council was one of the Government's six Welfare Reform demonstration projects, running from June 2012 to December 2013. This piloted a single monthly payment as part of the changes to the Universal Credit. Shropshire Council were successful in leading this pilot and sharing their knowledge and learning with other Councils ahead of the main roll out. This was a significant project which has raised the profile of the Council nationally.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	**Inadequate arrangements**

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Key indicators of performance	The Council achieved an overall favourable outturn against 2013/14 budgets of £390k , and was able to increased its general fund general fund balances from £6.820 million to £14.497 million (excluding schools balances). It has low levels of external borrowing and no reported issues with cash flow or liquidity.	Green	Green
Strategic financial planning	The Council has reviewed and updated its Medium Term Financial Plan in 2013/14 which now covers the period to 2016/17. The plan as presented to Council in February 2014 identified the need for £80 million of savings required over the three years. This is front loaded with over £40 million required in 2014/15. Progress towards the target is the subject of detailed monitoring.	Amber	Amber
Financial governance	Members and officers have a clear understanding of the Council's financial environment and the extent of the financial challenges it faces. It has comprehensive financial and performance monitoring arrangements in place with reporting through the Cabinet and full Council.	Green	Green
Financial control	No issues or concerns noted in relation to the Council's arrangements for financial control.	Green	Green
Prioritising resources	Members and Officers have shown clear leadership and identification of priorities through the process of preparing and approving the updated Medium Term Financial Plan in February 2014.	Green	Green
Improving efficiency & productivity	There is no evidence that the Council's on-going implementation of savings has had an adverse impact on service delivery in key priority areas.	Green	Green

Section 4: Fees, non audit services and independence

Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	177,390	177,390
Business rates fee variation[1]	0	900
Grant certification[2]	21,100	21,100
Total audit fees (excl of VAT)	**198,490**	**199,390**

In respect of the fee:

[1]There is an additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims, from which we were able to gain certain assurances in prior years. The Audit Commission has therefore given approval in principle for a fee variation for the additional work required. The additional fee will be applied nationally and is 50% of the average fee previously charged for NDR3 certifications for district councils. We will bill this once formal agreement from the Audit Commission has been received.

[2] The grant certification fee is indicative and may vary dependent upon the final levels of audit required. We are still completing our grant certification work and will report upon the fee once it is completed.

Fees for other services

Service	Fees £ (excl of VAT)
Valuation of Shire Services	8,000
Homes and Communities Agency Decent Homes Grant Claim – 2012/13 expenditure	2,750
Homes and Communities Agency Decent Homes Grant Claim – 2013/14 expenditure	TBC
Homes and Communities Agency Decent Homes Compliance Testing – 2014/15	TBC

Independence and ethics

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- An employee of Grant Thornton UK LLP is now a Parish Councillor in Shropshire with effect from October 2013. This employee will not be involved in the audit, grant certification work or any non audit services work that is carried out.
- An employee of Grant Thornton UK LLP previously worked at Shropshire Council with employment ceasing in July 2011. We have put in place sufficient safeguards to ensure that our independence is maintained regarding this employee.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

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

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

Respective responsibilities

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

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

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

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

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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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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Appendices

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Appendix A: Action plan

Priority
High – required prior to the opinion being signed, risk of significant misstatement
Medium – risk of inconsequential misstatement going forward

TO FOLLOW ONCE MANAGEMENT RESPONSES AGREED

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Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL

Opinion on the financial statements

We have audited the financial statements of Shropshire Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Shropshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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

As explained more fully in the Statement of the Head of Finance, Governance and Assurance 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Governance and Assurance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements 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:

- give a true and fair view of the financial position of Shropshire Council as at 31 March 2014 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:
securing financial resilience; and
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Shropshire Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by local authority electors. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

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

Colmore Plaza,
20 Colmore Circus,
Birmingham
B4 6AT

xx September 2014

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