



Date: Thursday, 17 September 2015
Time: 10.30 am
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AUDIT COMMITTEE

TO FOLLOW REPORT (S)

8 External Audit: Shropshire Council Audit Findings 2014/15 (Pages 1 - 36)

The report of the Engagement Lead is to follow.
Contact: Jon Roberts (0121) 232 5383

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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 2015

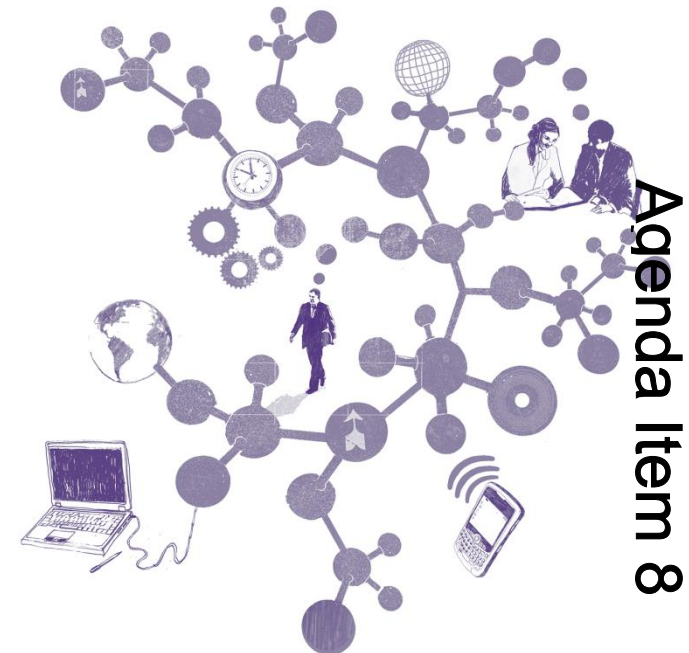
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Agenda Item 8



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Audit Findings for Shropshire Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Shropshire Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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. 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

Jon Roberts

Chartered Accountants

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Shropshire Council's (the Council) group and Council financial statements for the year ended 31 March 2015. 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 UK&I).

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

Introduction

In the conduct of our audit we have not made any changes to our planned audit approach, which we communicated to you in our Audit Plan dated 23 February 2015. Our audit is substantially complete although we are finalising our work in the following areas:

- assessment of final evidence for samples in operating expenses and grant testing as well as some backing information for an exit package
- receipt of evidence from legal and estates regarding their view on the treatment of schools
- information to support the valuation of housing stock
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement,
- updating our post balance sheet events review, to the date of signing the opinion, and
- Whole of Government Accounts

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 9 September 2015, and subject to the completion of the outstanding work described above, we expect to issue an unqualified opinion on the financial statements.

We have not identified any adjustments affecting the Council's reported financial position. The greatest changes related to presentation and disclosure either to comply with the Code or to make the business of the Council more easily understood by the reader of the accounts.

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

- there were no amendments to the financial statements which impacted on the prime statements or changed the draft reported financial position of the Council
- there were fewer amendments to disclosures than in previous years.

We have identified some issues which we have discussed in detail with management, relating to schools and housing stock valuations. Further details are set out in section two of this report.

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. We consider that work to declutter the financial statements has provided additional clarity to the reader of the significant transactions of the Council.
- The Council worked hard in year to strengthen financial reporting arrangements in areas where we reported issues last year or with current technical issues, specifically PFI and accounting for schools.

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 three 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

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 control weaknesses which we wish to highlight for your attention excepting two relating to IT controls where arrangements could be strengthened.

Further details are provided within section two 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 referenced in Appendix A and will be reported to Audit Committee with management responses once agreed. Recommendations have been discussed and agreed with the Head of Finance, Governance and Assurance and the finance team.

Acknowledgment

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

Grant Thornton UK LLP
September 2015

Section 2: Audit findings

- 01. Executive summary
- 02. Audit findings**
- 03. Value for Money
- 04. Fees, non-audit services and independence
- 05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 23 February 2015. 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 23 February.

Audit opinion

Our proposed 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 (UK&I) 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
Page 9	<p>1. Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper 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, • the culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable. <p>We have also:</p> <ul style="list-style-type: none"> • reviewed and tested revenue recognition policies • tested material revenue streams • reviewed unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
	<p>2. Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p>	<p>We have undertaken the following testing:</p> <ul style="list-style-type: none"> • reviewed accounting estimates, judgements and decisions made by management • tested journal entries • reviewed unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. There is one element of this work outstanding but we do not anticipate any issues with this and will update the Audit Committee when completed.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</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, will be reported to Audit Committee.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses Page 10	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • Documented the processes and controls in place around accounting for operating expenses • Walked through processes to confirm the operation of the controls • Searched for unrecorded liabilities by testing whether the cut-off of post year end payments was appropriate • Verified creditors to supporting documentation and subsequent payments to ensure that they are correctly classified and recorded in the correct period 	Our audit work has not identified any significant issues in relation to the risk identified
Employee remuneration	Employee remuneration and benefit obligations and expenses understated	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • Documented the processes and controls in place around accounting for employee remuneration • Walked through processes to confirm the operation of the controls • Agreed staff costs per the financial statements to the General Ledger and the payroll system • Assessed monthly trend analysis to gain assurance that there have been no significant omissions from staff costs recorded 	Our audit work has not identified any significant issues in relation to the risk identified
Welfare expenditure	Welfare benefits improperly computed	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • Documented the processes and controls in place around accounting for operating expenses • Walked through processes to confirm the operation of the controls • Reconciled expenditure to the welfare benefits system • Reconciled welfare benefit income to the grant claimed and cash received • Initial testing in accordance with the methodology required to certify the housing benefit subsidy claim including, housing benefit discovery testing, housing benefit analytical review, assessment of the uprating model and software tool. 	Our audit work has not identified any significant issues in relation to the risk identified

New issues and risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in the Audit Plan.

	Issue	Commentary
1.	<p>Change in accounting for Schools under IFRS 10</p>	<p>We reviewed the Council's treatment of School Assets (Land and Buildings). In particular we have reviewed the Council's decision to keep Voluntary Controlled and Voluntary aided schools off the Balance sheet where these are owned by religious bodies</p> <p>Management response</p> <p>From discussions with management, review of their working papers, and through discussion with estates and legal, we were able to establish that management had considered on a school by school basis how these schools should be accounted for. It was established that legal had not identified any reversionary interests which would transfer ownership to the council should the diocese cease to use the school, and did not identify any matters which would prevent the diocese, or the governors from forming an academy independent of local authority control. Hence we were satisfied with management's judgement that these schools were operated under 'mere licenses' and should not be accounted for on balance sheet.</p>

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
West Mercia Energy Joint Committee	No	Analytical	N/A	As a non-significant component we have undertaken analytical procedures to gain assurance. However, as we are also the auditor's of WME we have placed reliance upon the full scope Audit Commission Code of Practice audit performed by Grant Thornton.	Our audit work has not identified any issues in respect of the consolidation of West Mercia Energy Joint Committee.
Shropshire Towns and Rural Housing (STaRH)	No	Analytical	N/A	As a non-significant component we have undertaken analytical procedures to gain assurance. However, as we are also the auditor's of STaRH we have placed 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.

Accounting policies, estimates & judgements

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

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
<p>Revenue recognition</p>	<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, and • 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 judgement is involved • The accounting policy is appropriately disclosed 	<p style="color: green; font-size: 24px;">Green</p> 
<p>Estimates and judgements</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg); font-size: 24px; font-weight: bold;">Page 13</p>	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – Future levels of government funding – Asset valuations and useful lives – Provisions – Pensions liability – Recovery of Council tax and other debt arrears 	<p>The Council's approach to their estimates and judgements are reasonable and appropriately disclosed, using expert advice where appropriate. Our review of key estimates and judgements has not highlighted any issues with the exception of that detailed below which we wish to bring to your attention.</p> <p>The Council has used indexation to revalue its housing stock, which is not permitted under the Code (as clarified by CIPFA's LAAP Bulletin 98). The Council is required to revalue its housing stock annually. A Beacon valuation is required at least every 5 years which impacts on the valuation held within the financial statements. The Council is required to obtain a desk based valuation as a minimum each year in between. Management should then assess the difference between the carrying value and the desk based valuation to ensure that there is no material misstatement. Additionally the council has shown the upward revaluation resulting from the indexation (£10.7m) as a negative impairment in the HRA account.</p> <p>Management response</p> <p>Management started to use indexation in 2008 in order to comply with the need to value housing stock annually. It was only from 2013/14 that the code no longer allowed indexation, however Management were unaware of this matter. A full Beacon valuation was received in 2013/14. A desktop valuation has been performed by the Council's valuer to confirm that the carrying value in the accounts is not materially different from the fair value of the Housing stock. This has not identified a material difference. An amendment has also been made to the HRA Account to fully disclose the reversal of impairments in the accounts.</p> <p>We are satisfied that the valuations recognised in the balance sheet are not materially different to their carrying fair value.</p>	<p style="color: orange; font-size: 24px;">Amber</p> 

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Judgements - local authority maintained schools premises	The Council's policy on accounting for Local authority schools is set out in note 1.31	<ul style="list-style-type: none"> The Council's policy is appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice The Council has set out its judgement in relation to Voluntary Aided and Voluntary Controlled schools owned by religious bodies which is that these are operated under mere licenses and therefore not required to be accounted for on balance sheet The Council had also appropriately disclosed its policy with regards to other types of schools 	Green ●
Going concern	Management and 'Those Charged with Governance' have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2014/15 financial statements.	Green ●
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 issues which we wish to bring to your attention	Green ●

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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

Accounting policies, Estimates & Judgements– review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>1.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 15</p>	<p style="text-align: center; font-size: 2em; color: purple;">X</p> <p>Not met, but In progress</p>	<p>Estimates and judgements - Property, Plant & Equipment</p> <p>Pages 52 – 53 of the accounts sets out the Council's 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 2015.</p> <p>However, in our view this rolling programme did not meet the Code's requirement to value items within a class of property , plant and equipment simultaneously, as this Code requirement, which is based on IAS 16 Property, Plant and Equipment, only permits a class of assets to be revalued on a rolling basis provided that:</p> <ul style="list-style-type: none"> • the revaluation of the class of assets is completed within a 'short period' • the revaluations are kept up to date. <p>In our view, 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.</p>	<p>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 2015.</p> <p>The process of valuing assets of the same class has been implemented. Therefore all assets valued this year have been done so by class. However due to the 3yr rolling programme of revaluations, this will not be complete for all assets until 2016/17 (as assets valued before 2014/15 were not valued on this basis).</p> <p>Management response</p> <p>From discussion with management they are satisfied that they have put in place a process for ensuring that all assets of the same class are revalued at the same time for 2014/15 and going forward. They have also put in place procedures to ensure that the carrying value does not differ materially from fair value for those assets not valued in year (and have ensured that were it is possible that this may be the case, that such assets are valued in year). Management have stated that it is not practicable to move to revaluing all assets of a class in a single year and therefore the valuation process will not be fully code compliant until 2016/17.</p>

Assessment
 ✓ Action completed
 X Not yet addressed

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee and were not made aware of any material fraud risks. 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	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council. In particular, representations will be requested from management in respect of the significant assumptions used in making accounting estimates and for not amending the financial statements where we have requested this. A verbal update will be reported to the Committee on any issues we specifically wish the Council to make representations on.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no non-trivial omissions in the financial statements
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	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.

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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. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses and Welfare Expenditure as set out on page 10 above. We also review the IT controls in place at the Council to control the inputting and extraction of information which informs the financial statements.

The matters that we identified during the course of our audit are set out in the table below. 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, will be reported to Audit Committee.

	Assessment	Issue and risk	Recommendations
1.	Amber 	Periodic user access reviews We were informed in 2013/14 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 and adequate.
2.	Amber 	Physical controls Physical controls in relation to IT hardware for back up and replication of systems, specifically enhancement to air conditioning and fire suppression for servers have not yet been resolved	Management should put in place such controls as a matter of urgency
3.	Red 	Business continuity arrangements 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. The Council has however, very recently, reviewed SAMIS resilience and found it to be much more robust than previously identified. SAMIS is considered an amber risk although business continuity arrangements overall remain as a red risk.	Management should put in place such controls as a matter of urgency

Assessment

 Significant deficiency – risk of significant misstatement



 Deficiency – risk of inconsequential misstatement

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, will be reported to Audit Committee.

Assessment	Issue and risk	Recommendations
<p>Page 18</p> <p>Amber</p> 	<p>A 'Sub030' report produced from the Northgate system by the Revenues and Benefits team to populate the Housing Benefit Subsidy claim does not add up correctly. Testing in this area has indicated that the fields used to populate the claim are working, but the totals in the report are not summing correctly. We are satisfied that this does not indicate a material problem with the claim or with housing benefits, but the fact that it does not sum correctly provides two issues:</p> <ul style="list-style-type: none"> • Officers have to undertake manual controls to compile the figures for the Housing Benefit Subsidy claim which takes additional time and potentially provides the opportunity for human error, • If the system is not set up to provide the correct sum figures, it provides a question around the parameters within the system and may not be the most appropriate setting for the Council. <p>Management do not use the summing in this report as they use manual processes and are happy that the individual lines are correct and therefore appropriate to use for the subsidy claim.</p>	<p>The Council should review the parameters within the reporting package of Northgate to ensure that they are set up correctly and support the Council in its drive for efficiencies and the compiling of the Housing Benefit Subsidy claim.</p>
<p>Amber</p> 	<p>Member's declarations of interest. As at 10th September 2015, 3 of the 74 declarations of interest remain outstanding. The three outstanding are not members of the Cabinet or key Authority sub-committees.</p> <p>Failure to respond not only demonstrates a lack of governance arrangements, but also leaves Members vulnerable in relation to disclosing interests at Council meetings. There is also an issue for the time officers take chasing and documenting these annual reminders.</p> <p>The Council has compensating controls in place whereby declarations are discussed prior to all formal meetings but this annual process strengthens these arrangements.</p>	<p>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.</p>

Assessment

-  Marginal arrangements which could potentially provide a weakness in governance
-  Arrangements appropriate but scope for improvement
-  Arrangements appropriate and disclosures sufficient

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	 Action completed	<p>IT security policy acknowledgement</p> <p>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.</p> <p>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.</p>	<p>The Council has introduced a process that requires staff to formally acknowledge acceptable usage at the log-in stage within the system.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial 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

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1. Disclosure	n/a	n/a	<p>One Foundation School has been recognised on balance sheet for the first time. This change of recognition has been deemed to be correct and comply with the Council's accounting policies.</p> <p>The code requires the entry to be recognised as 'deemed cost'. The accounting entries are:</p> <ul style="list-style-type: none"> • Dr asset valuation • Cr Capital Adjustment Account (by Cr the revaluation reserve and reversing out in the MIRS). <p>It is this final double entry to move the balance from the revaluation reserve to the Capital Adjustment Account which has been made to the draft financial statements to complete this accounting transactions. This is seen in Note 22.</p> <p>The total value recognised is £2.760 million (£1.799 million buildings and £0.961 million land).</p>
2. Disclosure	n/a	Various	The Council has made a number of changes to disclosures to improve the layout or meaning for the reader of the accounts or ensure compliance with the Code.
3. Minor presentational adjustments	n/a	Various	A number of minor presentational adjustments to other areas of the accounts have been made.

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	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
<p>1. There is an estimation uncertainty within the valuation of the Council's housing stock as detailed on page 13. The Council has indexed the housing stock based upon Office of National Statistics (ONS) indices. This provides an upward revaluation of £10.7 million in the financial statements.</p> <p>The Council has also obtained a desk based assessment of the value of their housing stock which has used Land Registry indices for Shropshire. This indicates that the Council's housing stock has increased in value in year, but only by £2 million. This provides an estimation uncertainty of £8.7 million.</p>	Dr CIES £8,707 – surplus on revaluation of non-current assets	Dr Rev'n Res £8,707 (Cr PPE £8,707)	As this relates to an estimation uncertainty. It is not considered appropriate to change the 2014/15 figures, Particularly as the difference is not material to the accounts. The Council will be considering the basis for valuing their housing stock during the course of 2015/16 so that necessary amendments can be made to reduce any estimation uncertainty in future years.
Overall impact	£8,707	£8,707	

Impact of uncorrected misstatements in the prior year

	Assessment	Issue and risk previously communicated	Impact for 2014/15
<p>1.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 22</p>	<p style="text-align: center;">✓</p> <p style="text-align: center;">No impact for 2014/15</p>	<p>The accounting models for PFI schemes are highly complex accounting estimates and contain 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 judgements in this area by modelling the inputs into an agreed Grant Thornton model to help us assess the Council's estimations.</p>	<p>The Council has confirmed that it considers the financial model used to derive the figures in the financial statements to be appropriate. In 2013/14 there was a variance between the Council's estimations and those derived by Grant Thornton. This was 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 was not a material difference but was above triviality and as such we were required to report this. Work has been undertaken in 2014/15 to understand the Council's assumptions and we are now of the view that the exclusion of these costs is reasonable. This therefore means that in 2014/15, comparison of the Council's estimates against the Grant Thornton model does not produce any variances above triviality which we are required to report to you.</p>
<p>2.</p>	<p style="text-align: center;">✓</p> <p style="text-align: center;">No impact for 2014/15</p>	<p>In 2013/14, the Council determined that West Mercia Energy (WME) was a jointly controlled entity. The guidance stated that: 'A jointly controlled entity is incorporated into Group Accounts by either proportionate consolidation or the equity method.' The prior year disclosures were not done on a 'line by line' basis. However, this was not considered material to the disclosures within the financial statements.</p>	<p>The Council has undertaken a detailed review in 2014/15 of their group account disclosures following the introduction of new accounting standards (IFRS 10, 11 and 12 are new standards and there have been amendments to IAS 27 and 28). Work has been undertaken to ensure that the Council has reassessed their interests in other entities under the new/amended accounting standards, appropriately accounting for these entities with the required disclosures.</p>

Assessment
 ✓ No impact on 2014/15
 X Impact brought forward to 2014/15

Section 3: Value for Money

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- 02. Audit findings
- 03. Value for Money**
- 04. Fees, non-audit services and independence
- 05. Communication of audit matters

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

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

Overall our work highlighted

- The Council achieved an overall favourable outturn against 2014/15 budgets of £300k, and was able to increase its general fund general fund balances from £14.497 million to £15.206 million (excluding schools balances). It has low levels of external borrowing and no reported issues with cash flow or liquidity.
- The Council has reviewed and updated its Medium Term Financial Plan in 2014/15 which covers the period to 2016/17. Work undertaken during 2014/15 has revisited key plans and strategies to ensure that the Council's overall strategic direction is aligned.
- The plan as presented to Council in February 2015 identified the need for £80 million of savings required over the three years. This has been front loaded with over half already delivered. Progress towards the target is the subject of detailed monitoring.
- 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.

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.

Challenges going forward include strengthening the governance arrangements between the Council and ip&e Ltd as it grows in size and ensuring the culture of the Council as it diminishes in size supports the delivery of the longer term strategic aims.

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 2015.

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
Key indicators of performance	<ul style="list-style-type: none"> The Council has a strong balance sheet and low levels of debt. The out-turn positions for 2013/14 and 2014/15 for both revenue and capital delivered ahead of the financial plans. The outturn for the Revenue Budget for 2014/15 was an underspend of £0.300m, representing 0.05% of the original gross budget of £578 million. The level of general fund balance stands at £15.206 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. 	Green
Strategic financial planning	<ul style="list-style-type: none"> The Council has continued to demonstrate a drive and commitment to making changes in response to the recent reductions in Government funding. This has been systematically delivered across all service areas. Changes made to services are generally providing savings although some areas have seen improved performance initially but both are providing an improved use of resources for taxpayers. The majority of the £20.1 million savings required for 2015/16 are being delivered. The Council's proposals currently require savings of £66.3 million to be delivered by 2015/16. Implementing all of these savings would result in a surplus of £4.6 million in 2015/16. This is a significant reduction in overall Council spending since initial grant funding reductions were announced. The Council recognises the challenge and has already allocated the use of some reserves to ensure that they deliver their required out-turn. 	Amber
Financial governance	<ul style="list-style-type: none"> The workforce has diminished over the last two years due to voluntary and some compulsory redundancies, but more recently due to the seconding of staff to ip&e Ltd. At this stage, there are no concerns around capacity with reduced staffing numbers although the pace of delivery can stall where staff absence impacts on a lack of knowledge in some areas. We have not identified any governance issues directly due to staffing levels. The Council's governance structure is embedding following 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. As ip&e Ltd grows in size, the Council should align governance structures to industry standards by introducing formal reporting lines and Committee structures as appropriate to the business. 	Amber

Theme	Summary findings	RAG rating
Financial control	<ul style="list-style-type: none"> The Authority has demonstrated a drive and commitment to making changes in response to the recent reductions in Government funding. There is an understanding of the current financial position of the Authority and finance is a continuing thread evidenced through all elements of the corporate plan. There is a focus on being a Council of tomorrow and delivering services in new innovative ways which enable leaner structures, flexible working and greater partnership arrangements with both the public and private sectors. The Authority is cash rich and delivers a balanced budget each year. Ear marked reserves are used in line with their purpose to support service delivery in challenged areas. We have regularly liaised with Internal Audit during the year and worked with the Head of Finance, Governance and Assurance. Our relationship with Internal Audit is one which is sound and continues to strengthen. There are no concerns about the adequacy of its internal audit arrangements. 	Green
Prioritising resources	<ul style="list-style-type: none"> 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 continues to be to keep money and jobs locally within Shropshire to support the local economy. Service redesign continues to be delivered successfully and the Council continues to learn 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 whilst remaining realistic about what is deliverable within the reduced budgets. The Council has worked hard to support the establishment of the University Centre of Shrewsbury and develop sufficient student accommodation for the first intake of students within a short space of time. This initiative is expected to enable local people to remain within Shropshire to study and work as well as bringing the right skills into the County to support economic development. 	Green
Improving efficiency & productivity	<ul style="list-style-type: none"> The Council continues to perform well against statutory requirements. Assessments by the Care Quality Commission (CQC) and Ofsted indicate that the Council is performing well. There is a dynamic leadership team in place driving forward a clear vision to move to a Commissioning model. The Council continue to be proactive about driving out inefficiencies in services going out to tender to ensure that external providers do not gain from the easy wins. Strengthening commissioning skills within the Council will be key to maintaining efficient and effective services going forward. The Council is starting to successfully roll out a service redesign methodology throughout the Council demonstrating a culture for change. This has been supported by the seconding of staff who generally feel more empowered to deliver services differently. The skills provided by the Business Design Team within ip&e Ltd 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. 	Green

Section 4: Fees, non-audit services and independence

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Fees, non-audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit 2014/15	178,460	178,460
Additional work to inform DWP on errors reported in the 2013/14 qualification letter	1,800	1,800
Grant certification on behalf of Audit Commission	15,340	TBC*
Fees in relation to an objection from 2013/14	TBC**	14,276
Total audit fees	TBC	TBC

* Our work on the grant certification required by the Audit Commission will not be complete until 30 November 2015. At this stage, we will know the actual fees involved and will report these to you in the Annual Audit Letter.

** At the time of issuing the Audit Plan we had not completed our work on the objection from 2013/14 and so did not know the final cost. This fee is still subject to approval from PSAA.

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 Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Ethical standards and International Standards on Auditing ISA (UK&I) 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.

Fees for other services

Service	Fees £
Certification of the Teachers' Pension Agency 2014/15 claim	4,200 ***
Homes and Communities Agency Decent Homes Compliance Testing – 2014/15 (reported in the 2013/14 Annual Audit Letter)	4,250
Total non audit fees	8,450

*** Our work on the Teachers' Pension Agency claim has not been completed as yet, but is estimated to be provided at the same cost as 2013/14.

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

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

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

Respective responsibilities

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

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

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

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

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

Priority

High – required prior to the opinion being signed, risk of significant misstatement

Medium – risk of inconsequential misstatement going forward

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
Page 32	1. Management should establish a formal documented process for reviewing user access rights to ensure that only authorised staff have access to the network, and the levels of access granted is appropriate for their roles and responsibilities.	Medium		
	2. ICT should send out user access rights to line managers to determine if the user access is still relevant and adequate.	Medium		
	3. Management should put controls in place in relation to IT hardware for back up and replication of systems, specifically enhancement to air conditioning and fire suppression for servers as a matter of urgency.	Medium		
	4. Management should strengthen ICT resilience during a major event in relation to business continuity and disaster recovery to reduce the risk that access to and functionality of significant data could be considerably compromised.	High		
	5. The Council should review the parameters within the reporting package of Northgate to ensure that they are set up correctly and support the Council in its drive for efficiencies and the compiling of the Housing Benefit Subsidy claim.	Medium		
	6. 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.	Medium		

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

We have audited the financial statements of Shropshire Council for the year ended 31 March 2015 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 2014/15.

This report is made solely to the members of Shropshire Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the 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 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 2014/15, 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 also 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's 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 and Group Accounts Introduction 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 2015 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 2015 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 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the Explanatory Foreword and Group Accounts Introduction 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 are required to 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; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a 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 in October 2014.

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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 2015.

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 2014, 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 2015.

Certificate

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

[Signature]

Jon Roberts
Partner
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza,
20 Colmore Circus,
Birmingham
B4 6AT

xx September 2015

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