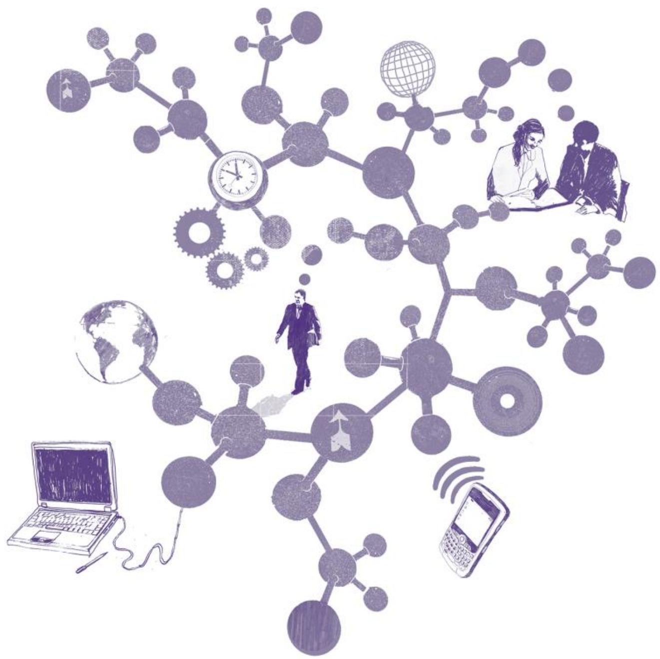
The Annual Audit Letter for Shropshire Council

Year ended 31 March 2016

October 2016



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Shropshire Council (the Council for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 15 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 29 September 2016.

Value for money conclusion

We were satisfied that the Council had put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

Use of additional powers and duties

We are required under the Act to give electors the opportunity to raise questions about the Council's accounts and we consider and decide upon objections received in relation to the accounts.

We have received one objection from a local elector which is still in the process of being resolved. The nature of this objection did not prevent the issuing of the opinion, but did result in the certificate being withheld. The certificate will be issued once the objection is fully resolved.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 21 October 2016.

Certificate
We are currently unable to certify that we have completed the audit of the accounts of Shropshire Council as we have not yet completed work in respect of an objections received.

Certification of grants
We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Other work completed
We have provided bespoke training for Audit Committee members as part of our on-going support to the Council.

Grant Thornton UK LLP
October 2016

Looking forward

The changing landscape

The local government sector continues to face a period of unprecedented change. Shropshire Council has demonstrated that it recognises the scale of these changes and the level of further financial savings required to deliver a balanced budget over the medium term. The current environment and the uncertainty around Government agendas making long term planning difficult. To respond to this challenge the Council will need to further develop its long term vision. Ideally, there should be an understanding of what public services in Shropshire will look like in ten years' time, to provide a guide for the Council's Corporate Plan and other strategies.

The Final Local Government Finance Settlement provided details for the financial years 2016/17 to 2019/20. The Council Business Plan and Financial Strategy identifies a funding gap of c£66 million over the 3 years 2016/17 to 2018/19 and sets out the Council's approach to redesigning services and delivering the required savings

There is a significant risk that the financial challenge will impact on service delivery, both statutory and non-statutory in future years. It is still unclear as to the extent of this impact as more work is needed to move from savings proposals to actual changes in service delivery.

Shropshire Council is aware of this challenge and has already delivered a number of high impact changes such as the triage service in Adult Social Care. Other schemes are being implemented such as Help2Change. The Council has already identified and approved savings of approximately £116 million following growth in demographic costs and reductions in central government funding over the Comprehensive Spending Review (CSR 2010) period 2011/12 to 2014/15.

A key financial risk for the Council will be delivering services in relation to Adult Social Care. The Council has made good progress in transforming Adult Social Care. Continued action is needed to integrate services with the health sector to ensure services are maintained at a cost affordable to both the Council and its partner

The Council is continuing to explore different approaches to achieve efficiencies or generate income to offset these funding reductions. There is now a greater focus on income generation, and identifying services which are commercially trading. If the work is to be successful the Council will need to support the Head of Business Enterprise and Commercial Services in maintaining a strategic and forward looking outlook and maximise new opportunities as they arise.

The Council has started to think in a more entrepreneurial way. There are pockets of commercial aspiration throughout the Council but this will need to be embedded across the Council. The Council also needs to harness its business acumen to match its commercial aspiration. Following the closure of ip&e Ltd, the Council is considering the lessons learned and working hard to achieve its ambition to become self-funding and sustainable. The Council will need to balance its opportunities against the risks involved.

The Authority is also positioning itself well within the devolution agenda. Relationships are being developed with other rural unitary Authorities, as well as the West Midlands against the backdrop of the Combined Authority. Senior Leaders are supporting and leading change which should enable the Authority to respond well to future developments. The Council needs to ensure that it keeps its focus further ahead to ensure that it is well placed to maximise collaboration opportunities to sustain the services that residents of Shropshire will want and need going forward.

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £10,409,000, which is 1.75% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as senior officer remuneration, auditors' remuneration and related party transactions.

We set a lower threshold of £520,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

Pension Fund

For the audit of the Shropshire County Pension Fund accounts, we determined materiality to be £15,139,000, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality for certain areas such as management expenses and related party transactions. We set a threshold of £100,000 above which we reported errors to the Pensions Committee.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts – Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. **This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.**	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: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable. **Our audit work has not identified any issues in respect of revenue recognition.**
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	• We have reviewed the journal control environment and not identified any significant control weaknesses. • We have tested key journal entries and not found any items which impacted on our opinion. • We have reviewed the accounting estimates, judgements and decisions made by management • We have reviewed any unusual, significant transactions and not identified anything which would impact on our opinion. **Our audit work has not identified any evidence of management over-ride of controls.**
Valuation of property, plant and equipment In the prior year we identified that the council had used indexation to revalue its housing stock, which is not in line with the code of practice. This led to an estimation uncertainty of £8,707k, which was below materiality and so the decision was taken not to correct this in the prior year accounts. There is a risk that the council will not appropriately value assets in 15/16 giving rise to a material uncertainty.	As part of our audit work we: • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work. • Discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. • Tested revaluations made during the year to ensure they are input correctly into the Council's asset register. • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. **Our audit procedures have not identified any issues with respect to the valuation of PPE.**

Audit of the accounts – Pension Fund

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the audit of the pension fund.

Risks identified in our audit plan	How we responded to the risk
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Shropshire County Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Shropshire Council as the administering authority, mean that all forms of fraud are seen as unacceptable. **Our audit work has not identified any material issues in respect of revenue recognition.**
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We have undertaken the following work in relation to this risk • review of accounting estimates, judgements and decisions made by management, • testing of journal entries, and • review of unusual significant transactions. **Our audit work has not identified any evidence of management over-ride of controls.**
Level 3 Investments – Valuation is incorrect Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	We have undertaken the following work in relation to this risk: • gained an understanding of the transactions via discussions with the pension fund team and reviewed supporting documentation. • carried out walkthrough tests of the controls identified in the cycle. • tested a sample of Level 3 investments by obtaining and reviewed the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March 2016 with reference to known movements in the intervening period. • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. **Our audit work has not identified any significant issues in relation to the risk identified.**

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

We reported in our Audit Findings Report that:

- We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.
- We did not identify any adjustments affecting the group and Council's reported net expenditure or surplus.
- There was one material change to the CIES where an adjustment of £8.4 million was required to both income and expenditure to align the CIES disclosures with the trial balance. This has no overall impact on the total income or expenditure.
- We did identify a relatively small number of disclosure and presentation errors, and requested some adjustments to improve the presentation of the financial statements.

The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £225.582 million (Net cost of services). The total comprehensive income and expenditure position for the year was a surplus of £27.513 million against an original gross budget of £594.843 million. The level of general balance stands at £18.370 million which is above the anticipated level included within the Financial Strategy, although below the risk based target for 2015/16 which stands at £23.374 million.

The opinion deadline moves to 31 July from 2017/18 placing greater pressure on the audit process. Significant work is required by the Council to bring work forward at both the interim onsite visits and the final accounts visit to ensure that appropriate evidence and assurance can be provided to facilitate this shorter timescale. We will work with the finance team to deliver this.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 15 September 2016.

There was one material change to the CIES where an adjustment of £8.4 million was required to both income and expenditure to align the CIES disclosures with the trial balance. This has no overall impact on the net income or expenditure. We also identified a relatively small number of disclosure errors, and requested some adjustments to improve the presentation of the financial statements.

Pension fund accounts

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Council's Audit Committee on 21 September 2016.

We did not identify any significant adjustments affecting the Fund's reported financial position. We agreed with officers some minor adjustments to improve the presentation of the financial statements.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Audit of the accounts

Whole of Government Accounts (WGA)
We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO . We issued an unqualified report on 21 October 2016.

Other statutory duties
We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have received one objection from a local elector which is still in the process of being resolved. The nature of this objection did not prevent the issuing of the opinion, but did result in the certificate being withheld. The certificate will be issued once the objection is fully resolved.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified and the work we performed are set out on pages 11 to 14 overleaf.

As part of our Audit Findings report agreed with the Council in September 2016, we agreed recommendations to address our findings.

- Continue to develop financial plans which support the strategic direction of departments with growth potential, ensuring that they are risk assessed and have appropriate sensitivity analysis.
- Ensure that Audit and Scrutiny functions are providing appropriate assurance and challenge to support strong governance during a period of considerable change.
- Ensure that the Council's Corporate Plan reflects the changing landscape within Adult Social Care and the developing interfaces between the Council, health and voluntary sectors.

Another key risk for the Council is ICT arrangements, specifically relating to disaster recovery. The Council has plans in place which are reported to Audit Committee and Cabinet. We did not raise a recommendation as we consider that this issue has sufficient focus now, but outcomes need to be evidenced to confirm that these actions have the appropriate impact.

The ICT Digital Transformation Programme has been agreed by the Council and now needs to be delivered. There is a focus on better integration between systems, allowing greater flexibility for data sharing across the Council and data interrogation. The Council is currently defining what business solutions they need. A challenge for the Council will be the transition from old IT systems and hardware to new as the project is expected to take 2 years. There is a requirement to keep existing systems and hardware operational until the new are fully procured and implemented.

The ICT Digital Transformation Programme is key to delivering services in a more responsive and flexible way going forward. The Council has not progressed the action plans previously put in place and this has resulted in ICT being reported as a significant risk for the past 3 years.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

1. Medium term financial resilience / strategic development

Significant risk	Findings and conclusions
The Council has historically managed its finances well, achieving financial targets and is on course to deliver its 2015/16 budget. Nevertheless the scale of funding cuts and the pace of change for Local Government will effect future financial plans, particularly following announcements from the Comprehensive Spending Review, Autumn Statement 2015 and then more recently the provisional Local Government Finance Settlement 2016/17 published in December 2015. The Council has identified that it needs to regularly monitor and review delivery against the Council's Business Plan and Financial Strategy and adjust plans as required at Director and Cabinet levels to achieve a balanced budget. This will include ensuring that supporting strategies, such as ICT and Workforce development align closely.	The Council has significant financial challenges, requiring the delivery of £23.1 million savings in 2016/17. As at Quarter 1, £18.8 million is Green rated, £3 million is Amber rated and £1.3 million is Red rated. Further work is required to ensure that the savings proposals are fully deliverable. The RAG ratings are clearly linked to services, so Members can understand the impact of the savings and which teams are leading these. This has also resulted in some statutory officers using their powers to formally report concerns around delivery of their services. Additional service pressures with a net value of £1.6 million are also being highlighted. Overall, the Council is confident that it will meet its 2016/17 budget. Looking ahead, the Council is reporting funding gaps of £13.691 million (2017/18), £20.211 million (2018/19) and £28.661 million (2019/20). The two year financial strategy, using reserves and one-off funding, allows sensible and calculated decisions to re-shape the Council in a measured way, investing where necessary e.g. ICT and commercial activities. There is also the option to borrow to invest if the opportunity is sound and delivers a high level of financial return. Some services are being allowed to grow rather than shrink where employees can prove that strengthening the service allows for greater resilience and the opportunity to bring in income from other external contracts. Examples of this include HR, People2People, Outdoor Partnerships and Inspire2Learn. The majority of the new 2017/18 saving relates to this new enterprising approach. While further work is needed the Council has adequate plans in place to ensure it is financially resilient in 2017/18. Adult Social Care is acknowledged to be the department with the greatest financial pressures, but is currently projecting to break even in 2016/17. Children's services is another department where there are considerable financial pressures. Whilst a small over-spend is anticipated, they have invested in additional capacity following a Peer Review through the LGA in June 2015 to enable better safeguarding as well as providing support for growing the required skills and talents from the team for succession planning where there are national shortages. The Council's General Fund reserves have been reviewed and challenged by a Task & Finish Group. Earmarked reserves have been reviewed by Senior Officers within the Council. This initially released £6.7 million but also identified further reserves which could be released if capital receipts were generated. Members agreed that the use of the one-off ability to use capital receipts to fund revenue would be utilised ahead of borrowing. This was assessed and challenged by the Performance Management Scrutiny Committee. Aligned to this, there is a stream of work to identify where the capital programme can be reduced. All assets are being reviewed to identify where they can be sold or kept to generate further income. There are no long term solutions at present and the Council still has many risks and uncertainties within its current plans. However, if Members make appropriate and calculated decisions now, they can ensure that the Council is well placed to take further opportunities as they arise. The Council needs to ensure that it remains open to new ideas and has an agile mind-set embedded within its culture. The recent change in Leader has provided the opportunity to refresh the Corporate Plan and overall vision for the Council. This is still developing and progress is being reported to Cabinet. Previous ambitions were to be a wholly commissioning Council. Whilst this is still considered appropriate for some services, there is a greater appetite to deliver services in house where a trading profit can be identified to support and benefit the residents of Shropshire. The Chief Executive is focusing on the key strategic issues, e.g. Sustainability and Transformation Plan (STP), Combined Authority, future service delivery, commercialisation, economic growth and financial stability. These are clearly strategic priorities for the Council and are supported by the various strands of work evidenced under each Director. **Recommendation: Continue to develop financial plans which support the strategic direction of departments with growth potential, ensuring that they are risk assessed and have appropriate sensitivity analysis.** ***On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.***

2. Governance

Significant risk	Findings and conclusions
The Council's governance structure is embedding following a further period of change. The pace of change has been driven by the timetable of reduced Government funding, changes with ip&e, the focus on becoming a commissioning council, and the recent change in the Council leader.	The 2015/16 Annual Governance Statement identified significant risks. The Council needs to ensure that it is delivering change in these areas, not just investing. Clear action plans and Officers being held to account will be a key priority for the Council over the coming months. Following the change in Leader, the Council has maintained its 'Strong Leader' governance structure for decision making. Our review identified that there were clear decision making, information flows and challenge processes where appropriate. Our work identified that the change in Leadership at the Council has resulted in much clearer roles for Senior Officers, particularly the statutory officers. It was also identified that The Senior Team consider that the whole of Cabinet was now more cohesive and making decisions collectively, rather than just portfolio holders and that there was a greater transparency around decision making. As the Council is traditionally Conservative, challenge from opposition can be low and review of scrutiny minutes did not evidence significant challenge. The Council is considering how this can be strengthened. Officers have a clear role to make recommendations and deliver on Cabinet decisions. Some Members are taking time to adjust to what they perceive to be a reduction in their control, but Officers are working hard to demonstrate that clearer separations provide a more appropriate governance model. There has also been changes to some Portfolio Holders which means that Officers and Portfolio Holders are having to develop working relationships quickly and ensure that the focus is appropriate, supporting the overall service delivery. The Council is also making some significant decisions to delegate responsibility for service delivery to Town and Parish Councils. Town and Parish Councils can have more understanding of the bespoke requirements of a local area and ensure that services are appropriately tailored. Where there are clear economies of scale from running services centrally, e.g. library administration, it makes sense for the Council to maintain these and let the Town and Parish Councils delivery these services. Where services are being reduced or shifted to another provider, the Council needs to ensure that it is legally possible to delegate the associated responsibilities and that appropriate contractual and governance arrangements in place to mitigate risks to the Council. These arrangements are still being developed. The Council is now focused on being more commercial and is reporting to Audit Committee around the controls and risks in place as they develop these arrangements. This is an appropriate control mechanism at this stage. There are plans to develop the governance around commercial activities and establish reporting lines and control mechanisms to ensure that the overall strategic direction is monitored and understood by the Council for any separate vehicles. There should also be a consideration of group activities and how these are reported and monitored within the Council. The Audit Committee has had a recent change in Chair and as a result of this is reviewing its coverage. There is a desire to increase its role in risk management to ensure that assurance is gained in the areas of risk and any lack of action against recommendations can be seen within the context of the overall business. The Council has been slow to progress actions in relation to ICT and the Audit Committee are looking to use their position to drive progress forward. The Council has a solid procurement department which supports service departments effectively. They are experienced with traditional procurement but have limited experience of commercial arrangements and innovative procurement. There are initial conversations happening around public to private sector partnerships, but this is currently new territory for the Council. **Recommendation: Ensure that Audit and Scrutiny functions are providing appropriate assurance and challenge to support strong governance during a period of considerable change.** ***On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.***

3. Service delivery

Significant risk	Findings and conclusions
The Council had started to roll out a service redesign methodology throughout its services, particularly in areas of high spend such as Adult Social Care. This methodology will be a key mechanism in co-ordinating change projects and developing a 'commissioning solution'. There needs to be consideration of where the current strategy lies and where the focus for resource deployment sits.	The Business Design Team continue to support service redesign. Having delivered high impact changes in previous years, for example in the triage service in Adult Social Care, there is a shift towards supporting the Council to improve key services where there is either a national skill shortage, a bottleneck for customers or an area with a high customer profile. Current support is being provided to Help2Change where ground level parts of the service are being redesigned. This does not produce large scale financial savings, but is crucial to the service being as efficient as possible with current resources. This allows staff to maximise the delivery of existing services whilst the Council takes stock of its strategic direction and ensure that any changes made deliver the greatest impact. Changes introduced in Adult Social Care in 2014/15 for new referrals to the Council from a home setting are now embedded and financial savings and quality improvements are being seen. There is now a focus on redesigning services which support referrals to the Council from an acute setting. Reducing delayed discharges, but also ensuring that the support provided to patients being discharged from acute wards will ensure efficiency in the use of resources and also bridge the gap for patients moving between Health and Social Care which has traditionally been a difficult 'hand-over'. Enhancing the experience of the customer is the key focus. Overall service redesign is currently being taken forward at a strategic level, supported by projects such as the Sustainability and Transformation Plan (STP) and One Public Estate. Long term decision making will be influenced by the May 2017 elections and proposals put forward to the electorate will guide the Council's future plans. These proposals and the decisions which are made post May 2017 will need to be outcome based, and potentially challenge current service delivery. There is an acceptance at a senior level that the Council may not need to deliver services in the same way to achieve the same outcomes. The Business Design Team has identified many other opportunities for service redesign which have, to date, not yet been explored. The Council will need to give some thought as to what it wants to deliver, commission, start or stop delivering before it starts to redesign services. This will be an iterative process to ensure that any future redesign starts with identifying what services are required by the 'customer'. Previous redesign was driven by the need to reduce costs. There needs to be a balance between finance and what services are required going forward to deliver the desired outcomes, supported by an understanding of how the Council can work with other bodies to deliver services. This 'bigger picture' view is vital to shaping services of the future. ***On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.***

4. Adult Social Care

Significant risk	Findings and conclusions
The Council is working in a challenged health and social care economy. The Sustainability and Transformation Plan for the area shows a significant deficit going forward. In particular, both Shropshire CCG and Shrewsbury and Telford Hospitals NHS Trust incurred significant deficits in 2015/16 and are projecting deficits in 2016/17. The recent Strategic Outline Business Care for healthcare was rejected by Shropshire CCG governing body. Adult Social Care services in Shropshire has been subject to West Midlands peer reviews. While the transformation is positive there was a £4.8 million overspend in Adult Social Care in 2015/16. The Council is undertaking financial and demand modelling based on national models to determine the number of residents and users who fund their own care. The Council is seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services.	Overall performance for Shropshire's Adult Social Care remains good, confirmed by reports from the Care Quality Commission (CQC). The Council has identified that Health and Social Care can support and even drive economic regeneration and so is a key function for the Council going forward. Adult Social Care is the department with the greatest financial pressures and this is recognised throughout the Council. This department had its base budget reset in April 2016 and is currently projecting to break even by the end of the financial year. There has been a significant project to validate the growth in Adult Social Care pressures which has resulted in the Council having a deeper understanding of the pressures going forward and how this impacts on the longer term financial strategy. As a result of this project, growth estimates have been reduced. However, there is considerable pressure still within the system and the level of uncertainty means that this remains a significant risk for the Council going forward. Significant work has been undertaken around service redesign, demand modelling and reviewing the customer flow. The Council has also reviewed its methodology for dealing with cases. This has focused on the new cases coming to the Council. The LGA has undertaken a review of Adult Social Care spend and this supports the Council's financial projections. Shropshire's reorganised Adult Social Care system, with its "community-led" social work, greater involvement of the voluntary sector and a drive towards the community supporting itself rather than relying on traditional services, is considered to be innovative nationally. The council is looking at how the lessons learned can be shared with other areas and is coordinating three pilot sites, in Calderdale, Wakefield and Denbighshire, to test out aspects of this model of social care. The aim is to put the customer at the heart of any service being delivered. Shropshire Council is the sole shareholder for People2People, an independent community interest company that delivers community social work across the county. The company is not yet considered "commercially mature" enough to go to an open market tender, so this vehicle ensures that the venture can establish itself without exposing the Council to undue risk, develop more strands of service delivery, more opportunities to trade, develop as an organisation and drive sustainability. Relationships with Adult Social Care partners in Shropshire is strong. Shropshire Partners in Care (SPIC) is a key forum and provides a single conversation to ensure that there is adequate capacity within Shropshire at the right price. Rural issues continue to provide a challenge. The Council has continued to work with the CCGs to develop a single point of purchase for care which provides stability for the market and maintains prices at appropriate levels. The greatest opportunity for the Council is to improve the interaction with health provision to drive service improvement and reduce costs. However, this will be difficult as the local provider trust is in significant deficit and one of the local CCGs is in special measures. The Council is actively involved in the Sustainability and Transformation Plan for the area and will need to closely monitor the joint planning and funding arrangements to ensure that there is no adverse impact on social care. Housing and Public Health are now part of Adult Social Care to join up the experience of the customer and provide a more rounded service. The Council is aiming to link registered social housing and public health to geographic areas. The aim is to bring these streams together in a programme management way to consider the overall decisions that impact on the immediate demand for a service and those which have a longer term view. **Recommendation: Ensure that the Council's Corporate Plan reflects the changing landscape within Adult Social Care and the developing interfaces between the Council, health and voluntary sectors.** ***On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.***

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team supports you as you provide information and evidence to enable us to gain assurance.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment. We have worked with you to streamline your financial statements template and had regular two-way discussions on technical issues to ensure that we deliver a no surprises audit.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for greater forward planning and more developed financial plans. We also commented on the ICT disaster recovery weaknesses you are addressing.

Sharing our insight – we provided regular Audit Committee updates covering best practice. Areas we covered included Making devolution work: a practical guide for local leaders, Growing healthy communities: The health and well-being index, Knowing the Ropes – Audit Committee; Effectiveness Review, Reforging local government: summary findings of financial health checks and governance reviews and Innovation in public financial management.

We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publications; Better Together: building a successful joint venture company and Joining up the dots, not picking up the pieces: Partnership working in mental health. We will continue to support you as you consider greater use of alternative delivery models for your services.

Providing training – we provided your members with training on financial governance and the effective audit committee.

We have helped shape the Council's thinking on various aspects of work included outsourcing, income generation and commercial development. We have worked closely with your Head of Business Enterprise and Commercial Services to understand your vision for developing your commercial expertise. The Council also had an attendee at our Joint Venture Seminar.

We have recently invited your Head of Business Enterprise and Commercial Services to deliver an element of our Financial Capacity Building Programme which will not only help other Councils start on their commercial journey, but also provide excellent networking opportunities and potential consultancy.

Providing information – We provided you with a demonstration of CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

Working with the Council

Working with you in 2016/17 – Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting, values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued two Client Briefings which we have shared with your finance team. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect. Our discussions with Council Officers to date has highlighted the following:

- The Council has an implementation plan which is in accordance with LAAP Bulletin 100 "Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17"
- The Council is monitoring progress against plan
- Efforts have been made to obtain all data to support the financial calculations and the finance team has engaged widely outside the finance department
- Engagement with the audit team on this matter has been good and discussions have taken place at regular intervals.

We will continue to liaise closely with the finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and have highlighted that there will be a fee for work on the objection, although the fee for this will not be known until the work is finalised. We will report the updated position to the Audit Committee once we have agreed this with the Head of Governance, Finance and Assurance.

Fees

	Proposed fee £	Final fee £
Council audit	133,845	133,845
Grant certification	13,945	13,945
Work to respond to a elector's objection	TBC	TBC
Total audit fees (excluding VAT)	**147,790**	**147,790**

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

Grant certification

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

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

Fees for other services

Service	Fees £
Audit related services:	
• Audit of West Mercia Energy (fee being split equally between Shropshire, Herefordshire and Worcestershire)	9,824
• Audit of ip&e Ltd	13,750
• Tax work for ip&e Ltd	3,250
• Grant Work Outside of PSAA regime	TBC
Non-audit services	**TBC**

Independence and ethics

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

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

Grant Thornton