



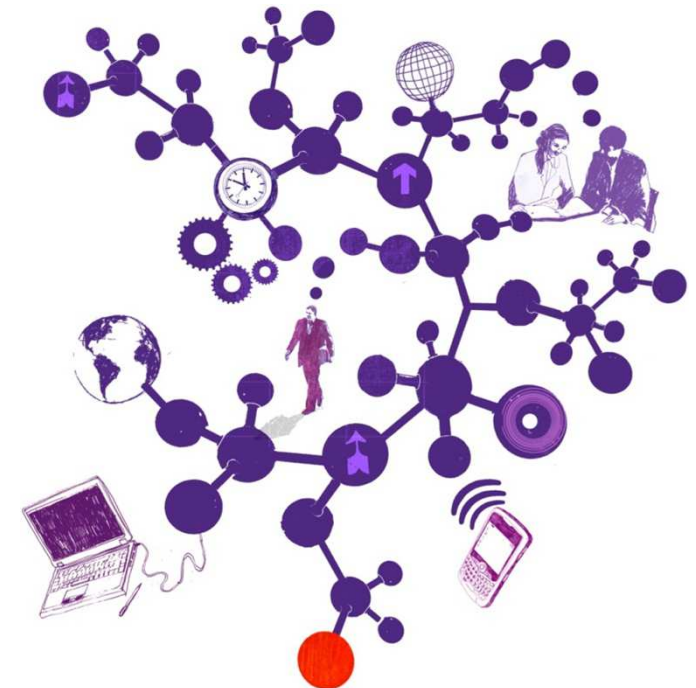
The Audit Plan for Shropshire Council

Year ended 31 March 2014

March 2014

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below. We will report any findings and conclusions to the Audit Committee.

Challenges / opportunities

1 Reductions in funding

- The funding from Central Government continues to reduce year on year with the latest settlement for 2014/15 further reducing the total local government spending power. This places continued pressure on the Council to identify and deliver savings.
- There is a pressure on budgets and reserves which could have a significant impact on the short term ability to maintain a prudent level of reserves and maintain effective service delivery.
- The Council has made redundancies and further staffing cuts are planned. Systems of working and associated internal controls and corporate governance arrangements are being redesigned to reflect new arrangements.

2. Alternative delivery models

- In its business plan the Council has committed to redesign every element of service delivery to focus on economy, efficiency and effectiveness. Customer orientation will be key to delivering redesigned services ahead of financial necessity.
- The Council is starting to use ip&e as one type of delivery vehicle for a new range of service provider solutions. This will require both investment and governance arrangements to be put in place with associated risks.

3. Decision making and performance management

- In May 2013 the Council adopted the Leader and Cabinet Executive (England) model which is more commonly known as the Strong Leader and Cabinet Model.
- The Council is under continued pressure to perform against its financial and non financial based policies and strategies.
- In 2012/13 Internal Audit provided a qualified Head of Internal Audit Opinion. This was based upon weaknesses within internal control arrangements.

Our response

- We will assess the Council's financial resilience and its financial plans as part of our value for money assessment and going concern assessment.
- The Council is projecting a potential overspend of £1.942m for 2013/14 (0.30% of gross budget). Purchasing care pressure within long term support for adults continues to challenge the Council.
- The General Fund Balance is predicted to be significantly lower than the risk based target in 2014/15 (£10.9 million compared with £15.5 million) but projected contributions are expected to bring the balance in line with the target of £12.1 million by 2016/17.
- We will assess the Council's control environment and its arrangements for processing and accounting for the redundancies as part of our audit of the financial statements.

- We will maintain a watching brief on the Council's plans for alternative delivery models and assess the arrangements as part of our value for money assessment.
- We will review the Council's draft commissioning strategy as part of our value for money assessment.

- We will review a sample of decisions made during 2013/14 to check for compliance against the new constitution as part of our value for money assessment.
- We will monitor performance management reports and assess whether there is any impact on deliver of services.
- We will review the work of Internal Audit to assess the control environment for the key financial systems and other systems examined in 2013/14. This will inform our testing strategy for the financial statements audit and form part of our value for money assessment.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

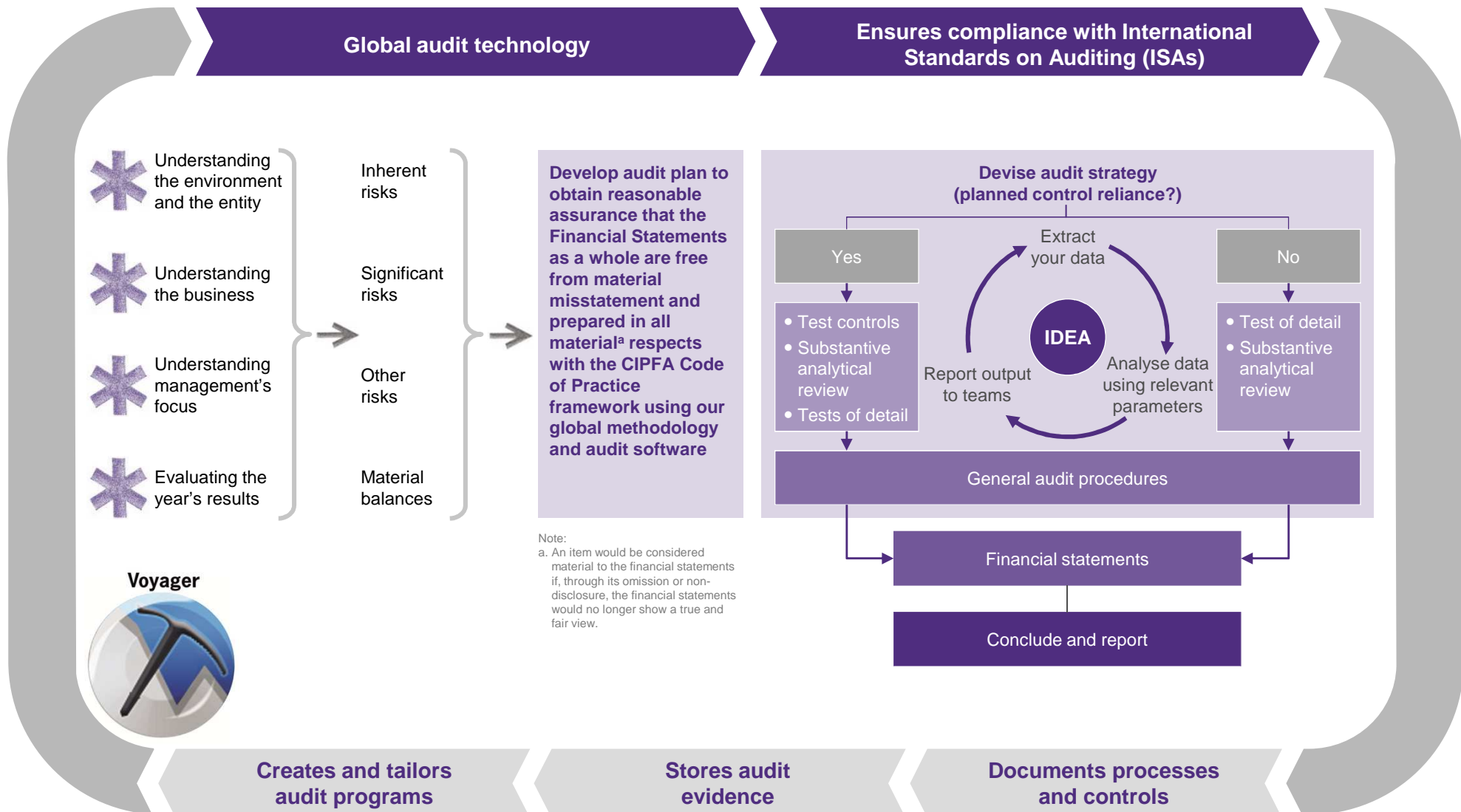
Developments and other requirements

1. Financial reporting	2. Legislation	3. Corporate governance	4. Pensions	5. Financial Pressures	6. Other requirements
<ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice. • Clarification of Code requirements around PPE valuations. • Changes to NDR accounting and provisions for business rate appeals. • Transfer of assets to Academies. 	<ul style="list-style-type: none"> • Local Government Finance settlement. • Welfare reform Act 2012. 	<ul style="list-style-type: none"> • Annual Governance Statement (AGS). • Explanatory foreword. 	<ul style="list-style-type: none"> • The impact of 2013/14 changes to the Local Government pension Scheme (LGPS). • There have been changes to IAS 19 and the financial reporting disclosures required for pension costs. 	<ul style="list-style-type: none"> • Managing service provision with less resource. • Progress against savings plans. 	<ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion. • The Council completes grant claims and returns on which audit certification is required.

Our response

<ul style="list-style-type: none"> • We will ensure that the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing. • We will ensure that schools are accounted for correctly and in line with the latest guidance. 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate. 	<ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS. • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge. 	<ul style="list-style-type: none"> • We will review how the Council has dealt with the impact of the 2013/14 changes through our meetings with senior management. • We will ensure that the Council complies with the updated pension disclosure requirements of the CIPFA Code of Practice. 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan. • We will undertake a review of Financial Resilience as part of our VFM conclusion. 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements. • We will certify grant claims and returns in accordance with Audit Commission requirements.
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Our audit approach



Significant risks identified

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

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Work completed to date: <ul style="list-style-type: none">• Review of revenue recognition policies Further work planned: <ul style="list-style-type: none">• Testing of revenue recognition policies• Performance of substantive testing on material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	Work completed to date: <ul style="list-style-type: none">• Discussion of accounting estimates, judgments and decisions made by management• Testing of journal entries to December 2013 Further work planned: <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries for January 2014 to March 2014• Review of unusual significant transactions

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315). In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Property, Plant & Equipment (PPE)	<p>PPE activity not valid</p> <p>Revaluation measurements not correct</p> <p>PPE improperly expensed</p>	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for Property, Plant and Equipment. We have carried out a walkthrough test to confirm the operation of controls around completeness and valuation which we consider to present a risk of material misstatement to the financial statements. 	<p>Interim visit:</p> <ul style="list-style-type: none"> Obtain a schedule summarising the capitalisation policies and review for appropriateness and consistency of accounting method with the prior year. Agreement of significant assets to deeds / ownership documentation. Performance of sample testing on additions and disposals. Consideration of 2013/14 capital programme and identification of reasons for any slippage. <p>Final accounts visit:</p> <p>Tests of detail on property, plant & equipment included in the financial statements including:</p> <ul style="list-style-type: none"> Agreement of valuation information disclosed to asset register and valuer's report. Agreement of disclosures in the financial statements to the asset register. Agreement of how schools balances have been accounted for. Agreement of a sample of operating and finance leases to supporting documentation..

Other risks identified - continued

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for operating expenses. We have carried out a walkthrough test to confirm the operation of controls around completeness which we consider to present a risk of material misstatement to the financial statements. 	<p>Interim visit:</p> <ul style="list-style-type: none"> Documentation of the processes in place for month and year end accruals. Collation of payment information to inform our year end trend analysis. Testing of a sample of operating expenses covering the period 1 April 2013 to 31 January 2014 to ensure they have been accurately accounts for and are in the correct period. <p>Final accounts visit:</p> <p>Tests of detail on operating expenses included in the financial statements including:</p> <ul style="list-style-type: none"> Testing of the completeness of the subsidiary interfaces and control account reconciliations. Review of trend analysis of payments. Consideration of any unrecorded liabilities and agreement to supporting documentation. Consideration of any prepayments and agreement to supporting documentation. Cut off testing of purchase orders and goods received notes (both before and after the year end). Testing of a sample of operating expenses covering the period 1 February 2014 to 31 March 2014 to ensure they have been accurately accounts for and are in the correct period.
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for welfare expenditure. We have carried out a walkthrough test to confirm the operation of controls around valuation which we consider to present a risk of material misstatement to the financial statements. 	<p>Final accounts visit:</p> <ul style="list-style-type: none"> Testing in accordance with the methodology required to certify the housing benefit subsidy claim (HB COUNT process).

Other risks identified - continued

Other reasonably possible risks	Description	Work completed to date	Further work planned
Employee remuneration	<p>Employee remuneration accrual understated</p> <p>Payroll tax obligations understated</p>	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for employee remuneration. We have carried out a walkthrough test to confirm the operation of controls around completeness which we consider to present a risk of material misstatement to the financial statements. 	<p>Interim visit:</p> <ul style="list-style-type: none"> Collation of monthly payroll information to inform our year end trend analysis. Testing of a sample of employee remuneration payments covering the period 1 April 2013 to 31 January 2014 to ensure they have been accurately accounted for in the correct period. Collation of information on Senior Officers disclosures and any termination payments known. <p>Final accounts visit:</p> <p>Tests of detail on employee remuneration included in the financial statements including:</p> <ul style="list-style-type: none"> Testing of the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements. Review of monthly trend analysis of the total payroll. Testing of a sample of employee remuneration payments covering the period 1 February 2014 to 31 March 2014 to ensure they have been accurately accounted for in the correct period. Testing of a sample of payments made in April and May 2014 to ensure payroll expenditure is recorded in the correct year. Review of IAS 19 disclosures and agreement to actuarial information. Agreement of employee remuneration disclosures in the financial statements to supporting evidence, in particular chief officers' remuneration and any termination payments that have occurred in year.

Other risks identified - continued

Other reasonably possible risks	Description	Work completed to date	Further work planned
Housing Rent Revenue Account	Revenue transactions not recorded	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for Housing Rent Revenue Account. We have carried out a walkthrough test to confirm the operation of controls around completeness which we consider to present a risk of material misstatement to the financial statements. 	<p>Interim visit:</p> <ul style="list-style-type: none"> Performance of predictive analytical review on dwelling rents to confirm our expectation of the rental figure in the financial statements. <p>Final accounts visit:</p> <p>Tests of detail on the housing rent revenue account included in the financial statements including:</p> <ul style="list-style-type: none"> Agreement of housing stock numbers to supporting records. Review of year end reconciliations between the rent system and the General Ledger. Agreement of disclosures in the financial statements to the pooling of housing capital receipts return. Review of revenue recognition policies for rental income. Review of the level of credit balances on rent accounts compared to previous years, and corroborate explanations for any significant movements. Review of housing revenue account debtors for any large or unusual balances. Agreement of housing revenue account disclosures in the financial statements to supporting information.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<ul style="list-style-type: none"> We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention. We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities. 	<ul style="list-style-type: none"> Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Walkthrough testing	<ul style="list-style-type: none"> We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding. 	<ul style="list-style-type: none"> Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	<ul style="list-style-type: none"> We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements. To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention. 	<ul style="list-style-type: none"> Our testing of journals in the first nine months of the year did not identify any significant issues. We will undertake detailed testing on the final three months of the financial year as part of the audit of the financial statements.
Review of Information Technology controls	<ul style="list-style-type: none"> We have undertaken our initial assessment of your information technology controls which informs the level of review undertaken by our IT department. 	<ul style="list-style-type: none"> Our IT colleagues will undertake their review of your information technology controls in April which will further inform our audit approach.

Group audit scope and risk assessment

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

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
West Mercia Energy	No	Analytical	N/A	Desktop review performed by Grant Thornton
Shropshire Towns and Rural Housing (STARH)	No	Analytical	N/A	Desktop review performed by Grant Thornton
South Shropshire Leisure Limited	No	Analytical	N/A	Desktop review performed by Grant Thornton
ip&e Ltd	No	Analytical	N/A	Desktop review performed by Grant Thornton

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

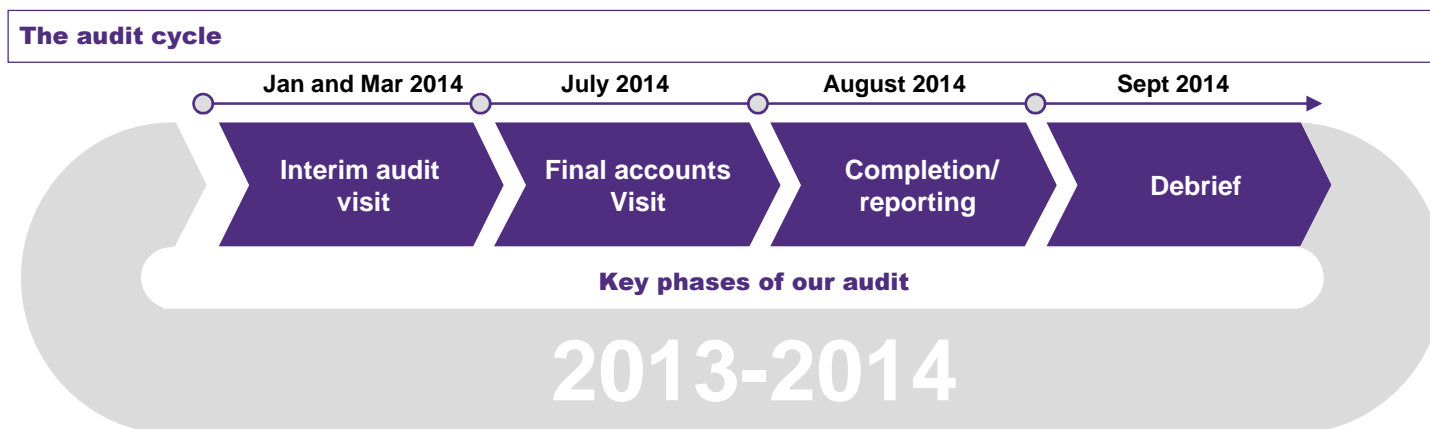
VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- A detailed risk assessment which will support our overall conclusion.
- A review of the Council's financial resilience for 2013/14 and going forward. This will include consideration of the adequacy of the Council's medium term and longer term financial planning.
- A review of the governance and control arrangements which are in place in light of the qualified Head of Internal Audit Opinion in 2012/13 and reduced staffing capacity following a series of redundancies.
- Review of the Council's involvement in the Better Care Fund arrangements.
- Consideration of the Council's progress in implementing the Welfare Reform arrangements.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Key dates



Date	Activity
January 2014	Planning
January 2014 and March 2014	Interim site visit
March 2014	Presentation of audit plan to Audit Committee
July 2014	Year end fieldwork
August 2014	Audit findings clearance meeting with Head of Finance, Governance and Assurance & the Chief Accountant
September 2014	Report audit findings to those charged with governance
September 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	177,390
Grant certification	21,100
Total fees (excluding VAT)	198,490

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

Service	Fees £
Our valuations department has completed work for the Head of Finance, Governance and Assurance	8,000 + VAT

Independence and ethics

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

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

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

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

Communication of audit matters with those charged with governance

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

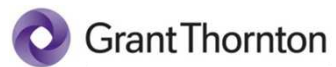
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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.

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



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