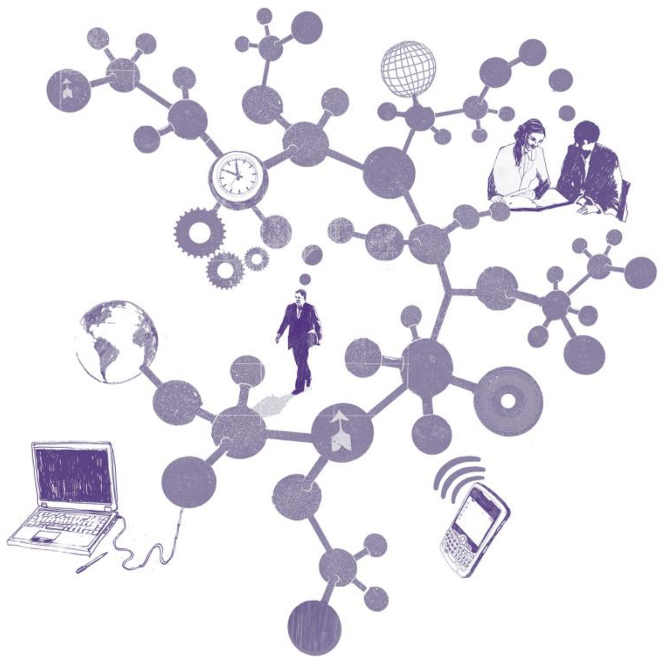
The Annual Audit Letter for Shropshire Council

Year ended 31 March 2014

October 2014



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Key messages

Our Annual Audit 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 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 27 March 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Council's Financial statements audit (including audit opinion)	We issued an unqualified opinion on the Council's 2013/14 financial statements on 30 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council. We reported our findings arising from the audit of the financial statements in our Audit Findings Report (AFR) on 18 September 2014 to the Audit Committee. The key messages reported were: • We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable. • The standard of the draft accounts and supporting working papers provided by the Council was good. • We identified no adjustments affecting the Council's reported financial position. The greatest changes related to additional narrative disclosure requirements either to comply with the Code of to make the business of the Council more easily understood by the reader of the accounts. • The Council appropriately accounted for the prior period adjustments required by the changes to the international accounting standard IAS19 – Employee Benefits. • We were satisfied that the overall approach taken by the Council to assessing provisions in respect of National Domestic Rates (NDR) is reasonable. We received confirmations in the Letter of Representation (LoR) to support the Council's view that it is not possible to arrive at a reliable estimate to the value of potential appeals not yet lodged. • The Council carries out a rolling programme of asset valuations which ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. In our view, however, this rolling programme does not fully meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously. We are satisfied that the Council has been able to demonstrate that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014 and we received confirmation on the assumptions through the Letter of Representation. • We identified two non-trivial adjustments in respect of the PFI disclosures and the consolidation of West Mercia Energy within the Group Income and Expenditure Account. The audit findings regarding the PFI disclosures related to differences brought about by a different PFI calculation model being used by Grant Thornton to assess the estimate. The Audit Committee agreed with officers' proposals not to amend for in 2013/14, as the values were not materially different.

Key messages

Pension Fund Financial statements audit (including audit opinion)	We issued an unqualified opinion on the Pension Fund's 2013/14 financial statements on 30 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year. We also issued an opinion on the same date reporting that the pension fund financial statements within Shropshire County Pension Fund's Annual Report are consistent with the full annual statement of accounts of Shropshire Council.
	
	We reported the findings arising from our audit of the financial statements in our Audit Findings Report on 19 September 2014 to the Pensions Committee. The key messages arising from our audit of the Fund's financial statements were:
	• The financial statements recorded net assets carried forward of £1.339 billion. We did not identify any material adjustments affecting the Fund's net assets position.
	• We agreed a number of minor adjustments to the notes to the financial statements with officers.
	• We identified two non-trivial adjustments that netted to £0.4 million in respect of discrepancies between the values of investments reported by the custodian and fund managers. These were similar to those reported in 2012/13 and were in respect of HarbourVest Private Equity investments and Aberdeen Assert Management:
	    • HarbourVest PE is potentially understated by £2 million due to estimates as at 31 December 2013 being used as the basis for the year end value, and
	    • Aberdeen Asset Management is potentially overstated by £1.6 million due to a difference in the view taken in relation to the of valuation given to investments for property by the investment manager and the Council's custodian.
	• The Pension Committee agreed with officers' proposals not to amend for these in 2013/14, as the values were not materially different.

Key messages

Value for Money (VfM) conclusion	We issued an unqualified VfM conclusion for 2013/14 on 30 September 2014. • The Council has a strong balance sheet and low levels of debt. The out-turn positions for 2013/14 for both revenue and capital delivered ahead of the financial plans. The outturn for the Revenue Budget for 2013/14 was an underspend of £0.390 million, representing 0.06% of the original gross budget of £639 million. • The level of general fund balance stands at £14.497 million, which is above the anticipated level included within the Council's Financial Strategy but below that previously identified as being required by the Head of Finance, Governance and Assurance. Whilst reserve levels are currently projected to marginally fall the level of reserves is still considered reasonable. • The Council has demonstrated a drive and commitment to making changes in response to the recent reductions in Government funding. Service redesign often clears a backlog or raises the level of service provided and so is not delivering planned savings in the early stages. However, it does evidence improved use of resources for taxpayers. • There is a dynamic leadership team in place driving forward a clear vision to move to a Commissioning model. The Council is being proactive about driving out inefficiencies in service s which are going out to tender to ensure that external providers do not gain from the easy wins. Some service redesign has already been delivered successfully and the Council has learned from this experience. Service redesign is customer driven, taking into account the local needs and views to ensure that services delivered are what is wanted by the local community. • The Council is starting to successfully roll out a service redesign methodology demonstrating a culture for change. The skills currently provided by the Business Design Team within ip&e Ltd, supported by BrightLake Consultancy are being transferred to Council employees. This STEP arrangement (Service Transformation Enablement Process) will provide a pivotal role in co-ordinating change projects that require a commissioning solution. Undertaking a zero based budgeting exercise after the initial service redesign grasps the opportunity of stripping out any excess from service costs to enable the Council the scope to maximise impact. Overall we are satisfied that in the short-term the Council is in a sound financial position. It is taking actions to identify medium-term requirements and options. There remains significant uncertainty and it will be important for the Council to ensure that future financial plans are fully developed, agreed and delivered. 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 put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Key messages

Whole of Government Accounts	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements on 3 October 2014.
Certification of grant claims and returns (Audit Commission regime)	We have certified one grant claim under the Audit Commission framework contract as at October 2014 relating to the Pooling of Capital Receipts which was certified without amendment. We are currently undertaking certification work on the Housing Benefit grant claim and will issue our report on this after we have completed the work in accordance with the deadline for submission to the DWP at the end of November 2014. This work will be summarised in a Certification Report which will be released in December 2014 and presented to the Audit Committee.
Audit fee	Our fee for 2013/14 was £177,390 (excluding VAT) which was in line with our planned fee for the year. This includes work for the opinion, value for money conclusion, whole of government accounts and other reporting. There was an additional £1,070 in relation to additional work required on business rates appeals which was not included in the initial Audit Plan. We have not yet completed our grant certification work. We will agree the fee for this work with the Head of Finance, Governance and Assurance and report the final fee in our Grant Certification Report. The total fee includes fees commissioned by the Council for additional services work. We also undertake the audit of Shropshire County Pension Fund and our net fee for 2013/14 was £22,430 (excluding VAT). Further detail is included within appendix B.
Additional work	We have undertaken various additional pieces of work as detailed in the additional fees section of appendix A. These have been undertaken under separate engagements and reported to the Council or the certification body as appropriate.
Looking forward	The majority of the £41.5 million savings required for 2014/15 are being delivered. However, the Council is currently using some one-off savings and is forecasting a deficit of £3 million for 2014/15 and is therefore bringing some savings plans for 2015/16 and 2016/17 forward to ensure that the budgeted out-turn is met and the medium term financial plan in not destabilised. The Council's governance structure is undergoing a period of change and it is also considering all vehicles for delivering future services to gain greater efficiencies for the Council's overall position. Whilst making savings and improving efficiency through challenging service delivery models are priorities for the Council it is also investing in areas such as Connecting Shropshire, which aims to bring high-speed fibre broadband to premises in Shropshire and the development of the University Centre Shrewsbury with the University of Chester and ip&e. The overall aim being to provide financial benefits to the local economy but also to support the skills and industries of Shropshire. The pace of many of these changes is being driven by the timetable to reduce Government funding. However, whether linked to austerity or investment members, officers and partner organisations will need to ensure that everyone understands the changes and their implications. The overall strategy remains clear and the decisions which are being made are consistent with it.

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	The Council has adopted a rolling programme for asset revaluations. This means that the date of valuations vary between 31 March 2010 and 31 March 2014. This approach is similar to many other authorities and we are satisfied that the Council has been able to demonstrate that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014. In our view, however, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously. Nor does it meet IAS16 which requires the revaluation of each class of assets to be completed within a 'short period'. We would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year. **Recommendation**: The accounting standards governing the disclosures around Group Accounts change in 2014/15. The Council will need to ensure that they comply with the requirements of IFRS 10, 11 & 12 and IAS27 & 28 in the 2014/15 financial statements. The Council should engage with Audit at an early stage to ensure that group disclosures meet the requirement of the new reporting standards which come into effect in 2014/15.	Medium	**Management response:** The Council will prepare the statement of accounts in line with all changes to accounting standards and the Code of Practice, and therefore, would automatically reflect the changes referred to for Group Accounts. Any specific issues arising from the changes will be discussed with Audit. **Responsible office:** Head of Finance, Governance and Assurance **Due date:** March 2015

Appendix B: Reports issued and fees

We confirm below the fee charged for the audit and non-audit services undertaken within 2013/14.

Fees

	Per Audit plan £	Actual fees £
Council audit[1]	177,390	TBC
Business rates fee variation[2]	0	1,070
Grant certification[3]	21,100	TBC
Additional services	0	17,750
Total Council audit fees (excl of VAT)	***198,490***	***TBC***
Pension Fund audit	23,427	23,427
Proposed fee variation – IAS 19 Assurances	1,979	1,979
Proposed fee variation – Repayment of the element of 2012/13 fee to meet costs of work by KPMG to be recharged to the Council	(2,976)	(2,976)
Total Pension Fund audit fees (excl of VAT)	***22,430***	***22,430***
Total audit fees (excl of VAT)	**220,920**	**TBC**

Fees for other services

Service	Fees £ (excl of VAT)
Valuation of Shire Services	8,000
Homes and Communities Agency Decent Homes Grant Claim – 2012/13 expenditure	2,750
Homes and Communities Agency Decent Homes Grant Claim – 2013/14 expenditure	2,750
Homes and Communities Agency Decent Homes Compliance Testing – 2014/15	4,250
Total Additional Services Fees	**17,750**

In respect of the fee:

[1]As reported in our AFR, on 22 August 2014 we received a letter from a local government elector wishing to exercise their statutory rights to object to the Council's accounts. The matter is in respect of taxi license fees. We are currently investigating the matter and are unable to formally conclude the audit and issue an audit certificate until our work is completed. The work is beyond our core audit responsibilities and, subject to Audit Commission approval, likely to lead to an additional audit fee. We are therefore unable to confirm the final fee for 2013/14 at this time.

[2]There is an additional fee of £1,070 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims, from which we were able to gain certain assurances in prior years. The Audit Commission has therefore given approval in principle for a fee variation for the additional work required. The additional fee will be applied nationally and is 50% of the average fee previously charged for NDR3 certifications for unitary councils.

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

Reports issued

Report	Date issued
Audit Plan	27 March 2014
Audit Findings Report	18 September 2014
Annual Audit Letter	October 2014
Certification report (to be issued once all certification for 2013/14 is complete)	December 2014