

The Annual Audit Letter for Shropshire Council

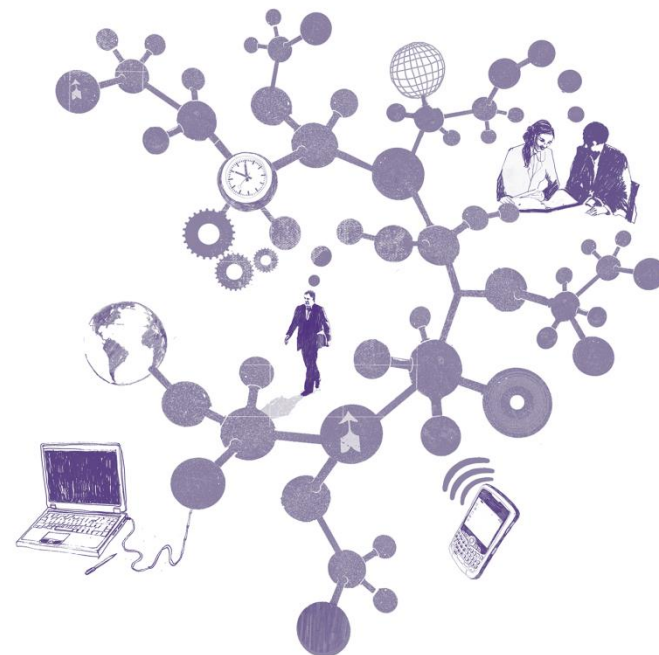
Year ended 31 March 2015

October 2015

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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 2015.

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 23 February 2015 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 and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 17 September 2015 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 consider that work to declutter the financial statements has provided additional clarity to the reader of the significant transactions of the Council.
- There were no amendments to the financial statements which impacted on the prime statements or changed the draft reported financial position of the Council. The majority of changes related to presentation and disclosure either to comply with the Code or to make the business of the Council more easily understood by the reader of the accounts. There were fewer amendments to disclosures than in previous years.
- The Council worked hard in year to strengthen financial reporting arrangements in areas where we reported issues last year or with current technical issues, specifically PFI and accounting for schools. No adjustments were made to the draft financial statements in these areas.
- We were satisfied that the overall approach taken by the Council in accounting for schools is reasonable. The Council demonstrated clear consideration of IFRS 10 and concluded that voluntary controlled and voluntary aided schools should be kept off the Balance Sheet where these are owned by religious bodies.
- The Council's approach to their estimates and judgements are reasonable and appropriately disclosed, using expert advice where appropriate. Our review of key estimates and judgements has not highlighted any issues with the exception of the valuation of housing stock. The Council indexed its prior year revaluation increasing the valuation of its housing stock by £10.7 million. The Council is required to revalue its housing stock annually so obtained a desk based valuation from its Valuer which indicated an increase of £2 million. With a difference of £8.7 million, this valuation confirms that the carrying value in the accounts is not materially different from the fair value of the Housing stock as estimated by the Valuer.

Key messages continued

<p>Financial statements audit (including audit opinion) continued</p>	<ul style="list-style-type: none"> 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 is not fully embedded to 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 2015. Internal Audit issued a number of lower level assurances on the ICT infrastructure systems. These, combined with the direction of travel, resulted in the Audit Service Manager (Chief Audit Executive) qualifying her overall opinion on the Council's internal control environment. These risks are already known to Directors and Members and are recorded in the strategic risk register. The ICT infrastructure continues to provide a clear risk to service continuity, however, there is no evidence of significant IT business failure or other error that could result in a material misstatement in the Council's accounts, and reliance can still be placed upon them for that purpose. <p>We issued an unqualified opinion on the Council's 2014/15 financial statements on 25 September 2015, 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.</p>
<p>Pension Fund Financial statements audit (including audit opinion)</p>	<p>We issued an unqualified opinion on the Pension Fund's 2014/15 financial statements on 25 September 2015, 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 2015 and the amount and disposition of the fund's assets and liabilities as at 31 March 2015, 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.</p> <p>We reported the findings arising from our audit of the financial statements in our Audit Findings Report on 25 September 2015 to the Pensions Committee. The key messages arising from our audit of the Fund's financial statements were:</p> <ul style="list-style-type: none"> The draft and final version of the financial statements recorded net assets carried forward of £1,512,730,000. We have not identified any material adjustments affecting the Fund's net assets position. We have agreed with officers a number of minor adjustments to the notes to the financial statements. We identified one non-trivial adjustments which netted to £0.7 million in respect of discrepancies between the values of investments reported by the custodian and fund managers. <p>Officers did not amend for this adjustment as the values were not materially different. If an amendment had been made it would have decreased both the Fund's reported surplus and net assets by £0.7 million. This was agreed by the Pensions Fund Committee acting as 'those charged with governance' for these accounts.</p>

Key messages continued

<p>Pension Fund Financial statements audit (including audit opinion) continued</p>	<p>Our work identified one control weaknesses which we reported to you in relation to obtaining audited control reports for all fund managers. We noted that two fund manager organizations did not produce independently audited control reports to enable the governance of these funds to be assessed by the Pensions Committee. There are some mitigating processes in place, but to deliver best practice, the Pensions Fund Committee should consider if they wish to alter their investment policy to make the provision of an independently audited controls report part of the decision on where to place investment funds.</p>
<p>Value for Money (VfM) conclusion</p>	<p>We issued an unqualified VfM conclusion for 2014/15 on 25 September 2015.</p> <ul style="list-style-type: none"> • The Council has a strong balance sheet and low levels of debt. The out-turn positions for 2013/14 for both revenue and capital delivered ahead of the financial plans. The outturn for the Revenue Budget for 2014/15 was an underspend of £0.300m, representing 0.05% of the original gross budget of £578 million. • The level of general fund balance stands at £15.206 million, which is above the anticipated level included within the Council's Financial Strategy but below that previously identified as required by the Head of Finance, Governance and Assurance. Whilst reserve levels are currently projected to marginally fall the level of reserves is still considered reasonable. • The Council has continued to demonstrate a drive and commitment to making changes in response to the recent reductions in Government funding. This has been systematically delivered across all service areas and an overall move to becoming a commissioning Council through creation an Alternative Delivery Service Vehicle, ip&e Ltd. Changes made to services are generally providing savings although some areas have seen improved performance initially but both are providing an improved use of resources for taxpayers. • The majority of the £20.1 million savings required for 2015/16 are being delivered. the Council's proposals currently require savings of £66.3 million to be delivered by 2015/16. Implementing all of these savings would result in a surplus of £4.6 million in 2015/16. This is a significant reduction in overall Council spending since initial grant funding reductions were announced. The Council recognises the challenge and has already allocated the use of some reserves to ensure that it delivers its required out-turn. • The workforce has diminished over the last two years due to voluntary and some compulsory redundancies, but more recently due to the seconding of staff to ip&e Ltd. At this stage, there are no concerns around capacity with reduced staffing numbers although the pace of delivery can stall where staff absence impacts on a lack of knowledge in some areas. We have not identified any governance issues directly due to staffing levels. • The Council's governance structure is embedding following a period of change. The pace of change has been driven by the timetable to reduce Government funding. Members, Officers and partner organisations need to ensure that everyone understands the changes and their implications. As ip&e Ltd grows in size, the Council should align governance structures to industry standards by introducing formal reporting lines and Committee structures as appropriate to the business.

Key messages continued

Value for Money (VfM) conclusion continued

- The Council has demonstrated a drive and commitment to making changes in response to the recent reductions in Government funding. There is an understanding of the current financial position and finance is a continuing thread evidenced through all elements of the corporate plan. There is a focus on being a Council of tomorrow and delivering services in new innovative ways which enable leaner structures, flexible working and greater partnership arrangements with both the public and private sectors.
- The Council has a relatively strong financial position and delivers a balanced budget each year. Ear marked reserves are used in line with their purpose to support service delivery in challenged areas.
- We have regularly liaised with Internal Audit during the year and worked with the Head of Finance, Governance and Assurance. Our relationship with Internal Audit is one which is sound and continues to strengthen. There are no concerns about the adequacy of its internal audit arrangements.
- The Council understands that prioritising resources is both about internal resources and those it has access to through partnership arrangements. Part of the Council's commissioning strategy continues to be to keep money and jobs locally within Shropshire to support the local economy.
- Service redesign continues to be delivered successfully and the Council continues to learn from this experience. The re-prioritisation of resources is customer driven, taking into account the local needs and views to ensure that services delivered are what is wanted by the local community whilst remaining realistic about what is deliverable within the reduced budgets.
- The Council has worked hard to support the establishment of the University Centre of Shrewsbury and develop sufficient student accommodation for the first intake of students within a short space of time. This initiative is expected to enable local people to remain within Shropshire to study and work as well as bringing the right skills into the County to support economic development.
- The Council continues to perform well against statutory requirements. Assessments by the Care Quality Commission (CQC) and Ofsted indicate that the Council is performing well.
- The Council has a clear vision to move to a Commissioning model and continues to be proactive about driving out inefficiencies in services. Strengthening commissioning skills within the Council will be key to maintaining efficient and effective services going forward.
- The Council is starting to successfully roll out a service redesign methodology throughout the Council demonstrating a culture for change. This has been supported by the seconding of staff who generally feel more empowered to deliver services differently. The skills provided by the Business Design Team within ip&e Ltd are being transferred to Council employees. This STEP arrangement (Service Transformation Enablement Process) will provide a pivotal role in co-ordinating change projects that require a commissioning solution. Undertaking a zero based budgeting exercise after the initial service redesign grasps the opportunity of stripping out any excess from service costs to enable the Council the scope to maximise impact.

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 2015.

Key messages continued

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 30 September 2015.
Certification of housing benefit grant claim	We are currently planning to certify the Council's 2014/15 housing benefit grant claim by the end of November 2015 in line with the deadline set by the Department of Work and Pensions. This work will be summarised in a Certification Letter which will be released in December 2015 and presented to the Audit Committee.
Audit fee	Our fee for 2014/15 was £178,460, excluding VAT which was in line with our planned fee for the year. There were additional charges for the grant claim work and objection work from 2013/14. Further detail is included within appendix B.
Additional work	We have undertaken or are still completing various additional pieces of work as detailed in the additional fees section of Appendix B. This work is undertaken under separate engagements and reported to the Council or the certification body as appropriate. All fees are reported to the Audit Committee and summarised at the time of issuing our opinion and in this annual audit letter.
Completion of objection on 2013/14 accounts	During the year we completed work relating to an objection that members of the public had raised regarding their concerns over the Council's taxi licensing arrangements. We did not uphold this objection and kept officers and members of the Audit Committee involved throughout the process.
Certification of audit completion	As a result of matters that came to our attention during the latter stages of our audit our certificate for completion is not yet issued for the year. Officers are currently working on providing us with the necessary information to resolve this position. We were satisfied that these matters did not have a material effect on the financial statements or a significant impact on our value for money conclusion.

Appendix A: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees

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

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

** At the time of issuing the Audit Plan we had not completed our work on the objection from 2013/14 and so did not know the final cost. This fee has been approved by PSAA Ltd, our contracting body.

Reports issued

Report	Date issued
Audit Plan	February 2015
Informing the Risk Assessment	February 2015
Audit Findings Report	September 2015
Annual Audit Letter	October 2015
Certification Letter	December 2015

Fees for other services

Service	Fees £
Certification of the Teachers' Pension Agency 2014/15 claim	4,200 ***
Homes and Communities Agency Decent Homes Compliance Testing – 2014/15 (also reported in the 2013/14 Annual Audit Letter)	4,250
Homes and Communities Agency Decent Homes claim 2014/15	2,750 ****
Pooling of Capital Receipts claim	TBC
Total non audit fees	8,450

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

**** Our work on the HCA Decent Homes claim has not been completed as yet, but is estimated to be provided at the same cost as previous years.

Appendix B: How we have worked with you during the year

Audit Committee Members

We:

- provided assurance on financial reporting and financial resilience by giving a timely audit opinion and value for money conclusion
- shared our thinking on key issues, including issuing members and management with our annual reports on Governance and Financial Health (Tipping Point) and our reports on Pensions Governance, Alternative Delivery Models, High Growth Index and 2020 Vision
- ran training for local government audit committee members that was attended by your members
- met regularly with the Audit Committee to ensure you were kept up to date with the audit progress, as well as emerging issues affecting the wider Local Government Sector
- invested in regular dialogue with the audit committee to ensure there were no surprises and to maintain a robust and independent stance
- provided regular, timely and transparent reports from our work and briefing notes on key sector developments

Other Councillors

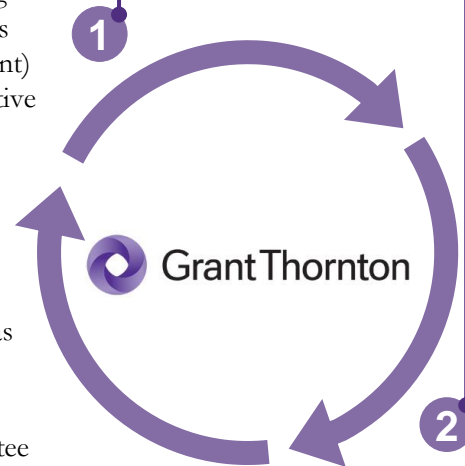
We:

- attended meetings with Senior Officers and Members on specific issues when requested

Senior Officers

We:

- ensured a smooth external audit process through regular dialogue and meetings to promptly discuss opinion audit and Whole of Government Accounts work to ensure you submitted accurate figures to central government
 - met regularly with the Senior Officers to discuss your major challenges, share our insight into national sector issues and provide support where possible
 - completed work on the 2013/14 objection to national timescales and worked with the Council on obtaining information and evidence as efficiently as possible
 - introduced Taxation and Advisory colleagues who specialise in Local Government issues to provide tailored support in key areas
 - worked with the finance department to further improve the accounts production process and to strengthen controls and systems
 - engaged early on audit requirements reflecting our engagement and partnership working with finance including making recommendations to strengthen controls and systems where appropriate
 - provided an opportunity to network with other Local Government bodies at our annual finance seminar
 - met with Directors from the Council's company to better understand their strategy, planning and growth ambitions which informed a case study in our national report on Alternative Delivery Models 'Spreading their Wings'.
 - shared our understanding of key issues facing Local Government through our thought leadership reports covering Financial Sustainability in Local Government, Devolution, Governance and Financial Resilience
- shared technical knowledge, provided early warning on key risks and provided an opportunity to network with other Local Government bodies at our workshops covering taxation issues, building a successful local authority trading company, and 20:20 vision





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