



Date: Thursday, 23 June 2016

Time: 9.30 am

Venue: Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire,  
SY2 6ND

Contact: Michelle Dulson, Committee Officer  
Tel: 01743 257719  
Email: [michelle.dulson@shropshire.gov.uk](mailto:michelle.dulson@shropshire.gov.uk)

## AUDIT COMMITTEE TO FOLLOW REPORT (S)

### **16 External Audit: Pension Fund Audit Plan 2015/16** (Pages 1 - 20)

The report of the Engagement Lead is to follow marked 16.  
Contact: Mark Stocks (0121) 232 5437

### **18 External Audit: Audit Committee Update (Pages** **21 - 36)**

The report of the Engagement Lead is to follow marked 18.  
Contact: Mark Stocks (0121) 232 5437

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# The Audit Plan for Shropshire County Pension Fund

Year ending 31 March 2016

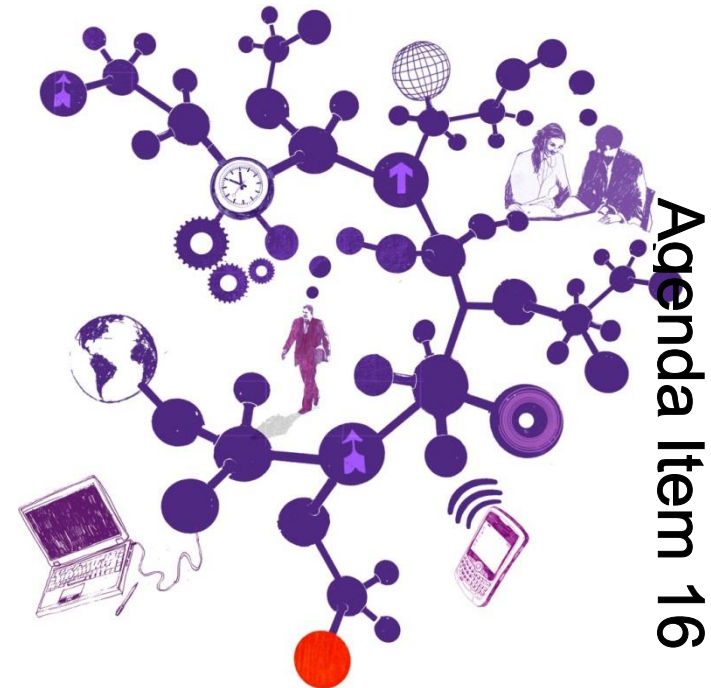
March 2016

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**John Gregory**  
Director  
T 07880 456 107  
E [john.gregory@uk.gt.com](mailto:john.gregory@uk.gt.com)

**Terry Tobin**  
Manager  
T 0121 212 4000  
E [terry.p.tobin@uk.gt.com](mailto:terry.p.tobin@uk.gt.com)

**Dave Rowley**  
Associate  
T 07798 561 062  
E [david.m.rowley@uk.gt.com](mailto:david.m.rowley@uk.gt.com)



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 Pension Fund 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.

Shropshire County Pension Fund  
Shirehall  
Abbey Foregate  
Shrewsbury  
SY2 6ND

09/03/2016

Dear Members of the Pensions Committee

**Audit Plan for Shropshire Pension Fund for the year ending 31 March 2016**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Shropshire County Pension Fund, the Pensions Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Pension Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Fund's financial statements
- give an opinion on the Pension Fund Annual Report.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

John Gregory  
Engagement Lead

Grant Thornton UK LLP  
Colmore Plaza  
20 Colmore Circus Queensway  
Birmingham  
B4 6AT  
T +44 (0) 121 212 4000  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

**Chartered Accountants**

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# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Pooling of Investments

- As part of the summer budget 2015 the government has invited LGPS administering authorities to submit proposals for investing their assets through pools of at least £25 billion, with the intention of reducing investment management costs and potentially improving returns.
- The government anticipates that this will improve both capacity and capability to invest in large scale infrastructure projects.
- Initial proposals are to be submitted to DCLG by mid February, with final plans agreed by 15 July 2016.

### 2. Changes to the investment regulations

- In November 2015 DCLG published draft proposals in relation to the investment regulations governing LGPS funds.
- The proposals seek to remove some of the existing prescribed means of securing a diversified investment strategy and instead give funds greater responsibility to determine the balance of their investments and take account of risk.

### 3. Governance arrangements

- Local pension boards have been in place since April 2015, and were introduced to assist with compliance and effective governance and administration of the scheme.
- There remains a continued focus on the affordability, cost and management of the scheme, and as such it remains critical that appropriate governance arrangements are in place for the fund.

### 4. Local Government Outsourcing

- As many councils look to outsourcing and the set up of external companies as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.

### 5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require funds to bring forward the approval of draft accounts and the audit of financial statements to the 31 May and 31 July respectively by the 2017/18 financial year.



## Our response

- We will continue to discuss with officers their plans for asset pooling and the implications that this will have on both the investment policy and governance arrangements of the fund.

- We will discuss with officers their plans to respond to these changes and consider the impact on the fund's investment strategy and its risk management approach to investments.

- We will continue our on-going dialogue with officers around their governance arrangements, particularly in light of their proposals for pooling investments.
- We will continue to share emerging good practice with officers.

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the fund.

- We will work with you to identify areas of your accounts production where you can learn from good practice in others.
- We aim to complete all substantive work in our audit of your financial statements by 18 July 2016 as a 'dry run'.

# Developments and other requirements relevant to your 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 and associated guidance.

## Developments and other requirements

### 1. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets

### 2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2016, however the Pension Fund needs to ensure on going compliance with the Code.

### 3. LGPS 2014

- Funds have implemented the requirements of LGPS 2014 and moved to a career average scheme.
- This will continue to increase the complexity of the benefit calculations and the arrangements needed to ensure the correct payment of contributions.
- In addition, this places greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

### 4. Accounting for Fund management costs

- There continues to be a spotlight on the costs of managing the LGPS and in particular investment management costs.
- Last year CIPFA produced guidance aimed at improving the transparency of management cost data and suggested that funds should include in the notes to the accounts a breakdown of management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.
- This guidance is currently being updated.



## Our response

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

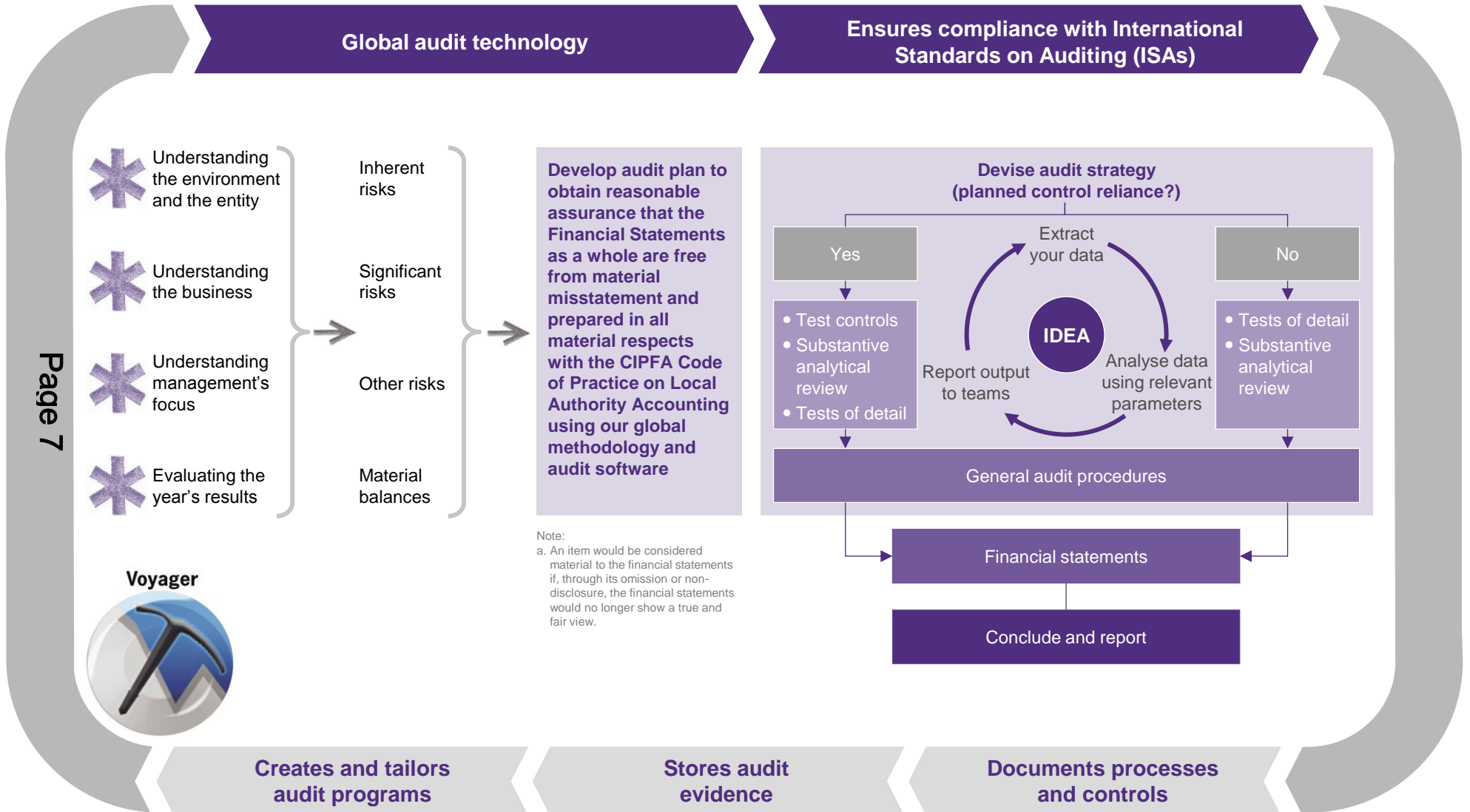
- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

- We will continue to review the arrangements that the fund has in place for the quality of membership data.

- We will continue to discuss with officers their plans for increasing the level of transparency associated with the costs of managing the fund.



# Our audit approach



Note:  
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in pension schemes, we have determined materiality for the statements as a whole as a proportion of net assets for the fund. For purposes of planning the audit we have determined overall materiality to be £15,139k (being 1% of net assets). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £757k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Management Expenses	Due to public interest in these disclosures and the statutory requirement for them to be made.	£100k
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£100k

# 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	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• 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.</li> </ul>
Management over-ride of controls	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>

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## Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
<p>Level 3 Investments – Valuation is incorrect</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 10</p>	<p>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.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit.</li> <li>• We have performed walkthrough tests of the controls identified in the cycle.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• For a sample of investments, test valuations by obtaining and reviewing 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<sup>st</sup> March with reference to known movements in the intervening period.</li> <li>• The existence of investments will be confirmed directly with independent custodians or by agreement to relevant documentation.</li> <li>• Review the qualifications of the fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached.</li> <li>• To review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.</li> <li>• Review the competence, expertise and objectivity of any management experts used.</li> <li>• We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances ,</li> </ul>

# 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 (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will perform walkthrough tests of key controls identified for this cycle</li> <li>• We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances ,</li> <li>• The existence of investments will be confirmed directly with independent custodians or by agreement to relevant documentation</li> <li>• Complete a predictive analytical review for different types of investments</li> </ul>

## Other risks identified (continued)

Other risks	Description	Audit approach
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit.</li> <li>We have performed walkthrough tests of the controls identified in the cycle.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>The existence of investments will be confirmed directly with independent custodians or by agreement to relevant documentation.</li> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> </ul>
Contributions	Recorded contributions not correct (Occurrence)	<p><b>Work completed to date:</b></p> <p>We have updated our understanding of the cycle with relevant personnel from the team during the audit.</p> <p>Existing key controls have been walked through to confirm operational effectiveness;</p> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Test a sample of contributions to source data to gain assurance over their accuracy and occurrence.</li> <li>Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.</li> </ul>

## Other risks identified (continued)

Other risks	Description	Audit approach
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p><b>Work completed to date:</b></p> <p>We have updated our understanding of this cycle with relevant personnel from the team during the interim audit.</p> <p>Existing key controls have been walked through to confirm operational effectiveness;</p> <p>Controls testing has been performed on new applications for receipt of benefits (NB this was performed as part of our 14/15 audit; per international auditing standards, this testing may be rolled forward for a three year period);</p> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Sample testing of individual pensions in payment by reference to member files</li> <li>• Rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.</li> </ul>
Member Data	Member data not correct. (Rights and Obligations)	<p><b>Work completed to date:</b></p> <p>We have updated our understanding of this cycle with relevant personnel from the team during the interim audit.</p> <p>Existing key controls have been walked through to confirm operational effectiveness;</p> <p>Controls testing has been performed on new enrolments to the pension scheme (NB this was performed as part of our 14/15 audit; per international auditing standards, this testing may be rolled forward for a three year period);</p> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Controls testing over annual/monthly reconciliations and verifications with individual members</li> <li>• Sample testing of changes to member data made during the year to source documentation</li> </ul>

# 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	Conclusion
<b>Internal audit</b> Page 14	We have completed a high level review of Internal Audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention. We have also reviewed internal audit's work on both the Administering Authority and the funds key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Administering Authority and that Internal Audit work contributes to an effective internal control environment for the Fund. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work has identified no material weaknesses which are likely to adversely impact on the fund's financial statements



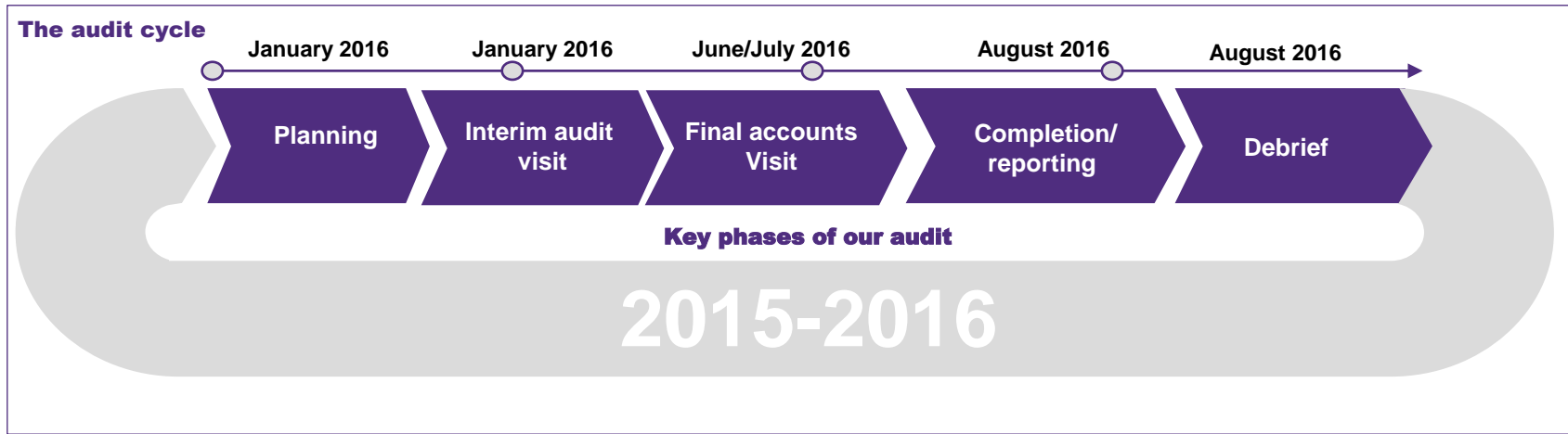
## Results of interim audit work (continued)

	<b>Work performed</b>	<b>Conclusion</b>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Fund in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Controls testing</b>	<p>During the 2014/15 audit, we performed testing of the operating effectiveness of key controls on those information systems where we had identified a reasonably possible risk of material misstatement to gain assurance about this and to reduce the amount of substantive testing performed on the financial statements. We tested:</p> <p>We tested a sample of new fund members and new pensioners to confirm that entry to the fund and application for receipt of benefits respectively had been appropriately authorised. We then walked through key controls in these areas during our 15/16 interim audit to confirm that they were still in place and, as such, reliance could be placed on the results of our 14/15 controls testing.</p>	<p>Our work identified that the key controls tested were operating effectively throughout 2014/15. In line with ISA requirements, we have walked through these controls to confirm that they are in place in the current period and as such are able to place reliance on the controls testing carried out in 2014/15 and to reduce the amount of substantive testing on these areas as a result.</p>

## Results of interim audit work (continued)

	Work performed	Conclusion
<b>Journal entry controls</b>  Page 16	<p>We have reviewed the Fund'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 Fund's control environment or financial statements.</p> <p>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.</p>	<p>Satisfied that journal entries do not indicate the existence of fraud or error; we will complete testing of the final three months of the period at the final accounts stage.</p>
<b>Early substantive testing</b>	<p>We have carried out testing of accuracy of calculation of benefits paid and lump sums, contributions received and changes to member data recorded to month nine. No issues have been identified that we wish to highlight for your attention.</p>	<p>Satisfied that results of substantive testing carried out so far do not indicate the existence of fraud or error; we will complete testing of the final three months of the period at the final accounts stage.</p>

# Key dates



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<b>Date</b>	<b>Activity</b>
January 2016	Planning
January 2016	Interim site visit
March 2016	Presentation of audit plan to Pensions Committee
July 2016	Year end fieldwork
August 2016	Audit findings clearance meeting with Head of Finance, Governance and Assurance
September 2016	Report audit findings to those charged with governance (Pensions Committee)
September 2016	Sign financial statements opinion

# Fees and independence

## Fees

	£
Pension Fund Scale Fee	23,427
Proposed fee variation – IAS 19 Assurances	1,979
<b>Total audit fees (excluding VAT)</b>	<b>25,406</b>

## 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 Fund and its activities, have not changed significantly.
- The Fund will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## 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.

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 requirements of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (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 Report 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 those charged with governance.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Administering Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. 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 NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the fund 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 fund 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 issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
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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# Joint Audit Committee Update for Shropshire Council

## Progress Report and Update Year ended 31 March 2016

June 2016

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### Mark Stocks

Partner and Engagement Lead

T 0121 232 5437

E [mark.c.stocks@uk.gt.com](mailto:mark.c.stocks@uk.gt.com)

### Emily Mayne

Manager

T 0121 232 5309

E [emily.j.mayne@uk.gt.com](mailto:emily.j.mayne@uk.gt.com)

### Kieran Armitage

Executive

T 0121 232 5422

E [kieran.armitage@uk.gt.com](mailto:kieran.armitage@uk.gt.com)



# Introduction

This paper provides the Joint Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

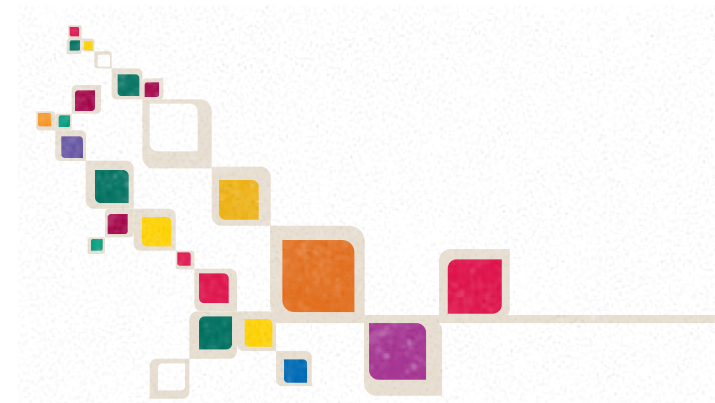
Members of the Joint Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

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- Better Together: Building a successful joint venture company; <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>
- Innovation in public financial management (December 2015); [www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/](http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/)
- Knowing the Ropes – Audit Committee; Effectiveness Review (October 2015); [www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/](http://www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/)
- Making devolution work: A practical guide for local leaders (October 2015) [www.grantthornton.co.uk/en/insights/making-devolution-work/](http://www.grantthornton.co.uk/en/insights/making-devolution-work/)

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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 your business 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.





# Progress to date



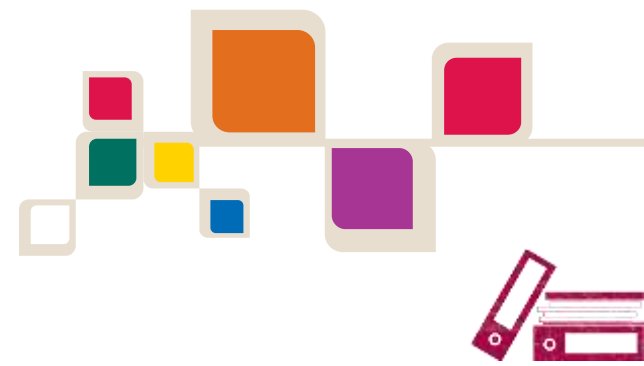
## Progress against plan

On track



## Opinion and VfM conclusion

Plan to give before deadline of 30 September 2016



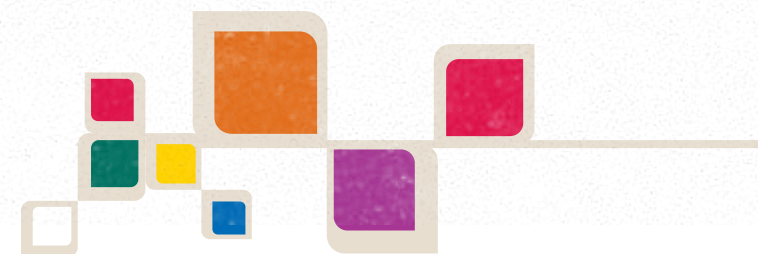
## Outputs delivered

Fee letter, Progress Reports, and interim audit delivered to plan

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2015/16 work	Planned Date	Complete?	Comments
<p><b>Fee Letter</b></p> <p>We are required to issue a 'Planned fee letter' for 2015/16 to the Council by the end of April 2015.</p>	April 2015	Yes	The 2015/16 fee letter was issued in April 2015
<p><b>Accounts Audit Plan</b></p> <p>We are required to issue a detailed accounts audit plan covering the audit for the Council setting out our proposed approach in order to give an opinion on the financial statements, including the group consolidations in 2015/16.</p>	March 2016	Yes	<p>We continue to assess the risks facing you and meet with Senior Officers to ensure that these risks are fully understood and our audit work is appropriate.</p> <p>If there are any changes to our plan between our initial risk assessment and the delivery of our opinion we will discuss this with the appropriate Senior Officers and agree with the Head of Finance, Governance and Assurance.</p>
<p><b>Interim accounts audit</b></p> <p>Our interim fieldwork visits covers work on the Council's arrangements, including:</p> <ul style="list-style-type: none"> <li>• updating our review of the control environments</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion work.</li> </ul>	January – April 2016	Yes	<p>We have:</p> <ul style="list-style-type: none"> <li>• engaged with the finance team to streamline and improve the audit approach for 2015/16 where possible</li> <li>• Discussed technical issues early, including the accounting for Highways Network Assets</li> <li>• Undertaken as much early testing as possible.</li> </ul> <p>We continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.</p>

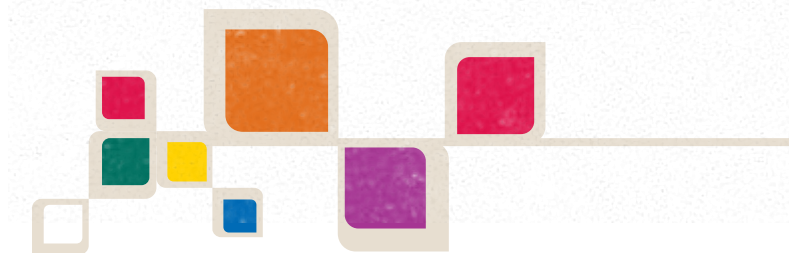
# Progress to date



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2015/16 work	Planned Date	Complete?	Comments
<b>Final accounts audit</b>			
<p>Covering the Council's group financial statements, we will:</p> <ul style="list-style-type: none"> <li>• audit the 2015/16 financial statements</li> <li>• proposed opinion on the 2015/16 financial statements</li> </ul>	June – September 2016	In progress	<p>We will undertake work on your draft financial statements to provide an opinion by the statutory deadline. We are planning to complete our audit by 31<sup>st</sup> August, as part of the transition to the earlier closedown and audit cycle from 2017.</p>
<b>Value for Money (VfM) conclusion</b>			
<p>The scope of our work to inform the 2015/16 VfM Conclusion requires conclusions on whether:</p> <p><i>"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</i></p> <p>This change of guidance was issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	February – July 2016	In progress	<p>We have considered the potential significant risks for our VfM conclusion and identified the following issues as reported to the June Audit Committee.</p> <ul style="list-style-type: none"> <li>• Medium term financial resilience / strategic development</li> <li>• Governance</li> <li>• Service delivery</li> <li>• Adult Social Care</li> </ul> <p>Our work on the VfM Conclusion will include attending meeting with key Senior Officers and key document reviews. We are aiming to deliver this work ahead of the national timescales as a move towards the faster close from 2017.</p> <p>As part of this work we will also follow up progress against last year's issues.</p>
<b>Annual Audit Letter</b>			
<p>We will summarise all the work completed as part of our 2015/16 audit within one letter which will be issued after the opinion.</p>	October 2016	Not started	

# Progress to date



2015/16 work	Planned Date	Complete?	Comments
<p><b>Grant work (PSAA regime)</b></p> <p>We plan to certify the Housing Benefits Subsidy Claim 2015/16 (BEN01)</p>	<p>February – November 2016</p>	<p>In progress</p>	<p>We will not prepare a Certification Plan on the basis that there is only one claim now under the PSAA regime and the fee is communicated via the annual fee letter.</p> <p>Progress will be reported through this update report at each meeting and we will report our conclusions to you once completed.</p>
<p><b>Engagement with you since the last Audit Committee meeting</b></p>	<p>On-going</p>	<p>On-going</p>	<ul style="list-style-type: none"> <li>• Updates with the Head of Internal Audit to ensure we are aware of progress on key issues.</li> <li>• Discussions between our advisory colleagues and the Chief Executive and Head of Finance, Governance and Assurance on a suite of services we could offer.</li> <li>• Discussions with Senior officers as part of our VFM risk assessment process.</li> <li>• Circulation of our latest collateral to Senior officers.</li> </ul>

# Value for Money

## Background

The Code requires us to consider 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.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single 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.*

This is supported by three sub-criteria as set out below:

### Risk assessment

We have completed our initial risk assessment based on the NAO's guidance. In our initial risk assessment, we have considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies where appropriate.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We are now in a position to report our risk assessment which drives our planned work for 2015/16 to meet our duties in respect of the VfM conclusion. This includes any significant risks identified, along with details of the work we plan to carry out to address these risks.

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>• Acting in the public interest, through demonstrating and applying the principles and values of good governance</li> <li>• Understanding and using appropriate cost and performance information to support informed decision making and performance management</li> <li>• Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>• Managing risks effectively and maintaining a sound system of internal control</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>• Managing assets effectively to support the delivery of strategic priorities</li> <li>• Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>• Working with third parties effectively to deliver strategic priorities</li> <li>• Commissioning services effectively to support the delivery of strategic priorities</li> <li>• Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

### Reporting

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.

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

# Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p><b>Medium term financial resilience / strategic development</b></p> <p>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.</p> <p>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.</p>	<p>This links to the Council's arrangements for:</p> <ul style="list-style-type: none"> <li>• planning finances effectively to support the sustainable delivery of strategic priorities</li> <li>• for using appropriate cost and performance information to support informed decision making</li> <li>• managing risks effectively and maintaining a sound system of internal control</li> <li>• demonstrating and applying the principles and values of good governance, and</li> <li>• planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>	<p>We will review the Council's arrangements for identifying, agreeing and monitoring its financial sustainability and any impact on operational plans. We will also review how key findings are communicated to the Cabinet and Audit Committee.</p> <p>We will review the Council's updated medium term financial plan and monthly financial monitoring reports and assess the assumptions used.</p>
<p><b>Governance</b></p> <p>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&amp;e, the focus on becoming a commissioning council, and the recent change in the Council leader.</p>	<p>This links to the Council's arrangements for:</p> <ul style="list-style-type: none"> <li>• managing risks effectively and maintaining a sound system of internal control</li> <li>• demonstrating and applying the principles and values of good governance</li> <li>• planning, organising and developing the workforce effectively to deliver strategic priorities.</li> <li>• working effectively with third parties to deliver strategic priorities.</li> </ul>	<p>We will review the effectiveness of governance arrangements in place following the recent changes at the Council.</p> <p>We will also explore how the Council's governance arrangement are supporting the strategic aim to be a commissioning Council.</p>

# Value for money (continued)

Significant risk	Link to sub-criteria	Work proposed to address
<p><b>Service Delivery</b></p> <p>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.</p>	<p>This links to the Council's arrangements for:</p> <ul style="list-style-type: none"> <li>managing risks effectively and maintaining a sound system of internal control,</li> <li>demonstrating and applying the principles and values of good governance, and</li> <li>planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>	<p>We will review the Council's arrangements for identifying, agreeing and monitoring the redesign of its services, and for communicating key findings to the Cabinet and Audit Committee.</p>
<p><b>Adult Social Care</b></p> <p>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 Case for healthcare was rejected by Shropshire CCG governing body.</p> <p>Adult Social Care services in Shropshire has been subject to West Midlands peer reviews and the feedback was positive and the transformation described as innovative. While the transformation is positive there is a projected £4.8 million overspend in Adult Social Care in 2015/16. To inform how the financial risks are mitigated the Council is undertaking financial and demand modelling based on national models developed as part of the Care Act Implementation work, and local surveys with care providers to determine the number of residents and users who fund their own care.</p> <p>The Council is seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services through its transformation agenda and through working with partners in health and the voluntary sector.</p>	<p>This links to the Council's arrangements for:</p> <ul style="list-style-type: none"> <li>working effectively with third parties to deliver strategic priorities, and</li> <li>managing risks effectively and maintaining a sound system of internal control.</li> </ul>	<p>We will review how the Council is developing partnership working to support the delivery effective delivery of adult social care.</p> <p>We will assess how the Council is working with its health partners to deliver the Sustainability and Transformation Plan.</p>

# Local Government Sector Accounting and other issues

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# Fighting Fraud and Corruption Locally

CIPFA publication

**Fighting Fraud and Corruption Locally** is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape .

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This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- illustrates the financial benefits that can accrue from fighting fraud more effectively
- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

The strategy can be downloaded from

<http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>





# Grant Thornton Publications

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## Better together

### Building a successful joint venture company

#### Grant Thornton market insight

Local government is continuing to innovate as it looks for ways to protect front line services. The changes are picking up pace as more local government bodies introduce alternative delivery models to generate additional income and savings. While these new models are not a solution by themselves, they do add to the wider solutions being explored by local government such as devolution, collaboration and integration.

Joint Ventures (JVs) have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges. The report also provides advice and information about the key areas to consider when deciding to set up a JV, setting it up and making it successful.

Key findings from the report:

- **JVs continue to be a viable option** – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- **There is reason to be cautious** – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- **There is a new breed of JVs between public sector bodies** – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture



# Knowing the Ropes – Audit Committee Effectiveness Review

Grant Thornton reports

We have published our first cross-sector review of Audit Committee effectiveness encompassing the corporate, not for profit and public sectors.

It provides insight into the ways in which audit committees can create an effective role within an organisation’s governance structure and understand how they are perceived more widely. The report is structured into four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

The detailed report is available here

<http://www.grantthornton.co.uk/en/insights/knowning-the-ropes-audit-committee-effectiveness-review-2015/>



# Joining up the dots, not picking up the pieces

## Partnership working in mental health

### Summary report of our mental health collaboration summit

Mental ill health costs the economy over £100 million each year and affects one in four people. However, responding to issues related to an underlying mental illness does not solely sit within the remit of health professionals. With many parts of the public sector needing to respond, and each facing significant financial pressures, collaboration around this issue is essential to provide high quality care and make savings to the wider public purse.

This paper draws together examples of successful collaboration between public services and feedback from a Midlands round table discussion – where the West Midlands Combined Authority has set up a mental health commission – to look at how different services have overcome some of the traditional barriers and demarcation lines between organisations.

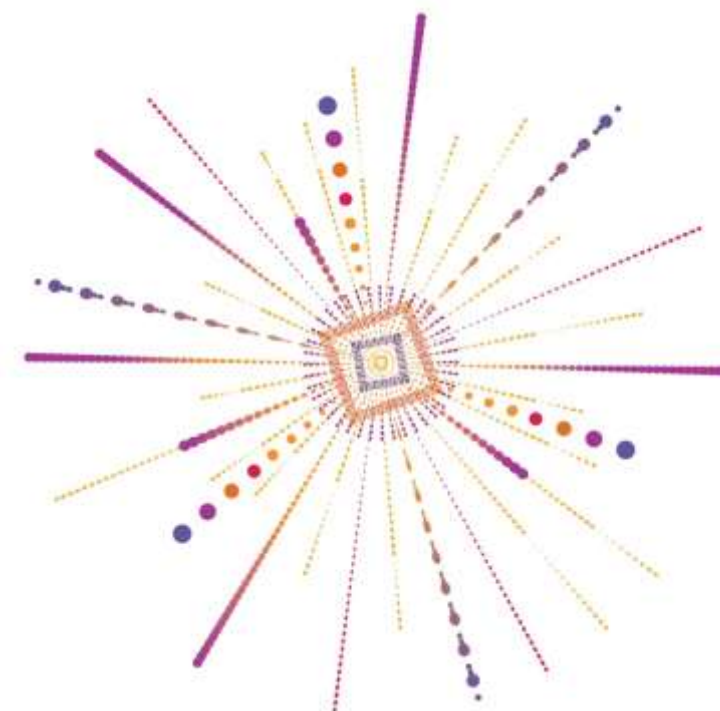
The key messages are:

- The unpredictable nature of mental health symptoms can mean that the first point of contact is via emergency services, with ambulance, fire and rescue or police officers being present. The cost of services not being available at the right place at the right time can be huge, in terms of the personal suffering of individuals and costs to the wider system
- Often relatively modest amounts of money targeted at specific initiatives such as street triage or community cafes can make a huge difference in improving the availability of important services
- An impact can be made without the need for expensive structural change. Most importantly, it requires a genuine approach to collaboration and a culture of putting the patient first
- Investing in collaborative initiatives focussing on the needs of mental health patients were undoubtedly resulting in savings elsewhere to the public purse. Examples include:
  - 92% reduction in detentions under section 136 of the Mental Health Act in Cheshire and Wirral; 50% reduction in Birmingham and Solihull; 39% in Nottinghamshire; 30% in Kent
  - 647 A&E attendances avoided by one street triage team in one year in Birmingham and Solihull
  - 80% remission in psychosis through early intervention in Derbyshire
  - 25% of unemployed users of the café run by the Manchester Mind Young Adults Services and Projects team have gone on to find employment.

Grant Thornton reports

### Challenge question:

Is the trust familiar with this report?





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