

The Audit Findings for Shropshire Council

Year ended 31 March 2016

September 2016

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September 2016

Dear Members of the Audit Committee

Audit Findings for Shropshire Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Shropshire Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Mark Stocks

Chartered Accountants

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Section 1: Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of Shropshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach which we communicated to you in our Audit Plan dated February 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- evidence to support samples relating to operating expenses, other revenues and employee remuneration, (some items relate to schools and are expected to be available in early September)
- review of the consolidation process for group accounts,
- review of the final version of the financial statements,
- obtaining and reviewing the management letter of representation,
- review of revised versions of the Annual Governance Statement,
- updating our post balance sheet events review, to the date of signing the opinion,
- Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £225,582k (Net cost of services). The total comprehensive income and expenditure position for the year was a surplus of £27,513k against an original gross budget of £594 million. The level of general balance stands at £18.370 million which is above the anticipated level included within the Financial Strategy, although below the risk based target for 2015/16 which stands at £23.374 million.

We have not identified any adjustments affecting the group and Council's reported net expenditure or surplus. There is one material change to the CIES where an adjustment of £8.4 million is required to both income and expenditure to align the CIES disclosures with the trial balance. This has no overall impact on the total income or expenditure.

We also identified a relatively small number of disclosure errors, and requested some adjustments to improve the presentation of the financial statements. Those of note are detailed in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

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

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit. No issues arose from our work.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to:

- ICT resilience – during a major event, resilience has been identified as inadequate.
- Sales Ledger - Whilst there is basically a sound system of control in place, the system contains weaknesses which leave some risks unaddressed and there is evidence of non-compliance with some key controls.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit Committee which is due in February 2017.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Head of Finance, Governance and Assurance

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Head of Finance, Governance and Assurance and the finance team.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

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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 we reported in our audit plan, we determined overall materiality to be £10,409k (being 1.75% of gross revenue expenditure).

We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We 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 accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £520k.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing in excess of £10,000 would be deemed to have implications on the users understanding of the financial statements
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing would be deemed to have implications on the users understanding of the financial statements
Related party transactions	Related party transactions have to be disclosed if they are material to the Council or to the related party	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Council and the related party.

Audit findings against significant risks

"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 (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 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 Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • We have reviewed the journal control environment and not identified any significant control weaknesses. • We have tested key journal entries and not found any items which impacted on our opinion. • We have reviewed the accounting estimates, judgements and decisions made by management • We have reviewed any unusual, significant transactions and not identified anything which would impact on our opinion. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of property, plant and equipment</p> <p>In the prior year we identified that the council had used indexation to revalue its housing stock, which is not in line with the code of practice.</p> <p>This led to an estimation uncertainty of £8,707k, which was below materiality and so the decision was taken not to correct this in the prior year accounts.</p> <p>There is a risk that the council will not appropriately value assets in 15/16 giving rise to a material uncertainty.</p>	<ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate. Review of the competence, expertise and objectivity of any management experts used. Review of the instructions issued to valuation experts and the scope of their work. Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register. Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Our audit procedures have not identified any issues with respect to the revaluation of PPE and in particular housing stock. We are satisfied that the Council has used an appropriate methodology to value its housing stock in 15/16.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration and benefit obligations and expenses understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle. • undertaken a walkthrough of the key controls to assess whether those controls were in line with our documented understanding. • agreed staff costs per the financial statements to the General Ledger and the payroll system. • undertaken a monthly trend analysis to gain assurance that there have been no significant omissions from staff costs recorded. 	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle. • undertaken a walkthrough of the key controls to assess whether those controls were in line with our documented understanding. • tested control account reconciliations. • searched for unrecorded liabilities by testing whether cut-off for post year end payments was appropriate. • verified a sample of creditors to supporting documentation and subsequent payments. . 	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle. • undertaken a walkthrough of the key controls to assess whether those controls were in line with our documented understanding. • reconciled expenditure to the welfare benefits system. • reconciled welfare benefit income to the grant claim and cash received. • performed initial testing in accordance with the methodology required to certify the housing benefit subsidy claim (Housing Benefit discovery testing, housing benefit analytical review, uprating model, software tool). 	Our audit work has not identified any significant issues in relation to the risk identified.



Group audit scope and risk assessment

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

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
West Mercia Energy	No	Analytical	N/A	Desktop review performed by Grant Thornton	Work will be completed when all audited financial statements are available
Shropshire Towns and Rural Housing (STaRH)	No	Analytical	N/A	Desktop review performed by Grant Thornton	Work will be completed when all audited financial statements are available
ip&e Ltd	Yes	Audit of component financial information	Risk of material misstatement due to errors in ip&e Ltd accounts or consolidation errors	We will write to the auditors of ip&e Ltd to obtain assurance over their accounts We will consider the need to perform additional tests to obtain sufficient assurance.	Work will be completed when all audited financial statements are available




Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Authority's policy is set out in its accounting policies: <ul style="list-style-type: none"> • 1.2 – Accruals of Income and Expenditure • 1.17 – Government Grants and Contributions, and • 1.21 – Provisions and Contingent Liabilities 	<ul style="list-style-type: none"> • The Authority's policy is appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice • Minimal judgement is involved • The accounting policy is appropriately disclosed 	 Green
Judgements and estimates	Key estimates and judgements include: <ul style="list-style-type: none"> • Useful lives and £nil residual value of property, plant and equipment, • Property valuations including revaluations, impairments and fair valuations, • PFI estimations and liabilities, • Government Funding and the high degree of uncertainty, • Reserves and the level of funding which is held in general and earmarked reserves, • Pension fund valuations and settlements, and • Provisions, including the recovery of Council tax and other debt arrears. 	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 which we wish to bring to your attention.	 Green

Assessment

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Judgements – local authority maintained schools premises	The Council's policy on accounting for Local Authority Schools is set out in note 1.31	<p>We have reviewed the Council's policy for accounting for Local Authority Schools and have concluded that:</p> <ul style="list-style-type: none"> The Council's policy is appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice The Council has reviewed the judgements made in 2014/15 in relation to Voluntary Aided and Voluntary Controlled schools owned by religious bodies and concluded that these are still operated under mere licenses and therefore not required to be accounted for on balance sheet The Council had also appropriately disclosed its policy with regards to other types of schools 	 Green
Going concern	The Head of Finance, Governance and Assurance, (s151 Officer) has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 Green
Other accounting policies	The accounting policies are clearly set out in Note 1 of the draft financial statements.	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice and accounting standards. The Council's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.




	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee and we have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council. In particular, representations will be requested from management in respect of the significant assumptions used in making accounting estimates. A verbal update will be reported to the Committee on any issues we specifically wish the Council to make representations on.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from PWLB, for loans and requested from management permission to send confirmation requests to other financial institutions for bank and investment balances. This permission was granted and the requests were sent. These have now been received in the main or alternative procedures to gain assurance have been undertaken.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<ul style="list-style-type: none"> We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is not yet complete and is scheduled to be undertaken during the week commencing 19th September 2016

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses and Welfare Benefits as set out on page 12 above. We also consider the findings of Internal Audit.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	 Red	ICT Disaster Recovery and Business Continuity ICT Resilience during a major event has been identified as inadequate and therefore there is a risk that access to and functionality of significant data could be considerably compromised in a major event. Business continuity and disaster recovery arrangements do not, currently, reduce this risk to levels acceptable to the organisation.	Management should put in place such controls as a matter of urgency
2.	 Amber	Physical Controls Physical controls in relation to IT hardware for backup and replication of systems, specifically enhancement to air conditioning and fire suppression for servers have not yet been resolved. The Council has moved the back-up data centre from Wem to Nuneaton which has largely mitigated these issues. This work was completed in the summer and has not yet been reviewed.	Management should put in place such controls as a matter of urgency
3.	 Amber	Sales Ledger There are significant and fundamental weaknesses with the policies and procedures in the collection of overdue debt and as a consequence, aged debt has increased in 15/16	Management should put in place such controls as a matter of urgency

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 Totals per the Comprehensive Income and Expenditure Statement (CIES) in the draft accounts misstated (Environmental and Regulatory Services were overstated by £8,484k and Highways was understated by £8,484k). The ledger totals were correct and this error occurred during the transfer of information into the financial statements, hence accounts amended (but no journal required).	Dr CIES Highways Gross Exp £8,484k (Cr CIES Env and Reg Servs Gross Exp £8,484k)	N/A	N/A
Overall impact	£nil	£nil	£nil

Impact of uncorrected misstatements in the prior year

Detail	Assessment for 15/16
<p>1 In 2014/15 there was an estimation uncertainty within the valuation of the Council's housing stock. The Council had indexed the housing stock based upon Office of National Statistics (ONS) indices. This provided an upward revaluation of £10.7 million in the financial statements.</p> <p>Revaluing based upon indices is not permitted by the Local Government Code of Accounting Practice. As this provided a material misstatement, the Council obtained a desk based assessment of the value of their housing stock as at 31 March 2015 which used Land Registry indices for Shropshire. This indicated that the Council's housing stock had increased in value in year, but only by £2 million. This provided an estimation uncertainty of £8.7 million in the 2014/15 financial statements.</p>	<p>The Council commissioned a desk based valuation from the District Valuer for its housing stock as at 31 March 2016. This provided an independent expert view of the valuation estimation for this asset group. Our review confirmed that the information provided to the District Valuer was accurate and that the methodology used to provide the valuation was appropriate.</p> <p>Our review of the valuation has not indicated a material error in the valuation in the 2014/15 financial statements.</p> <p>On the basis that the valuation estimate now reflects that of an independent expert, we are satisfied that this issue does not impact on the 2015/16 opinion.</p>

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	£239,887	Financial instruments fair values	<ul style="list-style-type: none"> No impact on primary statements, as the adjustment only required in a disclosure. PFI Fair values should be amended to £239,887k from £279,532k
2 Disclosure	N/A	Related Party Transactions	<ul style="list-style-type: none"> The most recent declaration of interest from the former leader is dated 31.03.15. The council has therefore been unable to ensure that any additional related party transactions with regard to the former leader have been declared
4 Disclosure	Various	Throughout the accounts	<ul style="list-style-type: none"> In addition to the disclosure issues noted above, there have been a number of amendments made to address spelling errors, grammatical errors or minor inconsistencies, we are satisfied that none of these items is individually significant enough to warrant reporting to the Audit Committee on an individual basis.

Qualitative Issues

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Issue	Value £'000	Account balance
The Collection Fund deficit is now a significant value. We have no evidence that this is materially misstated. However, due to the size of this debt we wish to bring it to the attention of the Audit Committee and recommend that the Committee ensures that management has arrangements in hand to address this issue.	£9,014	Collection Fund Deficit

Section 3: Value for Money

01. Executive summary

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Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that 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.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in June 2016 and identified the following significant risks, which we communicated to you in our Supplementary Value for Money Conclusion update dated June 2016.

- Medium term financial resilience / strategic development
- Governance
- Service delivery
- Adult Social Care

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- financial resilience; the Council has taken positive and appropriate actions to manage its financial position. While significant challenges remain the Council has put in appropriate arrangements to manage these financial challenges
- governance; arrangements have strengthened over the last year and decision making, information flows and challenge processes are appropriate. There remains potential to strengthen the impact of the scrutiny and audit committees on governance
- Service redesign; the Council have delivered a number of high impact changes such as the triage service in Adult Social Care. Other schemes are being implemented such as Help2Change
- Adult Social Care; the Council has made good progress in transforming Adult Social Care. Continued action is needed to integrate services with the health sector to ensure services are maintained at a cost affordable to both the Council and its partner.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report can be found at Appendix B.

Key VFM findings

Other findings from our work

Overall strategic direction – the current environment and the uncertainty around Government agendas making long term planning difficult. While we recognise this uncertainty more work is needed to set out the Council's long term vision. Ideally, there should be an understanding of what public services in Shropshire will look like in ten years' time, to provide a guide for the Council's Corporate Plan and other strategies. Despite this uncertainty the current financial, workforce and IT strategies are being refreshed and developed. and will support the overall development of the Corporate Plan. The Council needs to ensure that it keeps its focus further ahead to ensure that it is well placed to sustain the services that residents will want and need going forward.

The ICT project – this will be key to delivering reform. The ICT strategy has been agreed by the Council and now needs to be delivered. There is a focus on better integration between systems, allowing greater flexibility for data sharing across the Council and data interrogation. The Council is currently defining what business solutions they need. A challenge for the Council will be the transition from old IT systems and hardware to new as the project is expected to take 2 years. There is a requirement to keep existing systems and hardware operational until the new are fully procured and implemented. The ICT strategy is key to delivering services in a more responsive and flexible way going forward. The Council has not progressed the action plans previously put in place and this has resulted in ICT being reported as a significant risk for the past 3 years.

Income generation – there is now a greater focus on income generation, and identifying services which are commercially trading. If the work is to be successful the Council will need to support the Head of Business Enterprise and Commercial Services in maintaining a strategic and forward looking outlook and maximise new opportunities as they arise. The Council also needs to consider further development and training for this role and their people to ensure that the skill set required is developed.

The Council has started to think in a more entrepreneurial way. There are pockets of commercial aspiration throughout the Council but this is not evidenced as an embedded culture throughout. The Council also needs to harness its business acumen to match its commercial aspiration. Following the closure of ip&e Ltd, the Council is considering the lessons learned and working hard to achieve its ambition to become self-funding and sustainable. The Council will need to balance its opportunities against the risks involved. Areas for focus are:

- moving sufficiently quickly when an opportunity presents itself
- ensuring investment decisions or new ventures are subject to appropriate business planning and scrutiny
- managing the growing risks from increased demand in Adult Social Care.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as set out in Appendix A. In summary these are:

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

1. Medium term financial resilience / strategic development

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

2. Governance

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

3. Service delivery

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

4. Adult Social Care

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

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none"> We have not identified any matters that would require a public interest report to be issued
2.	Written recommendations	<ul style="list-style-type: none"> We have not made any written recommendations that the Group or Council is required to respond to publicly
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none"> We have not used this duty
4.	Issue of an advisory notice	<ul style="list-style-type: none"> We have not used this duty
5.	Application for judicial review	<ul style="list-style-type: none"> We have not used this duty

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

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

Fees

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

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

Grant certification

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

Fees for other services

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

Independence and ethics

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

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

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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 Council'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 (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and 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 auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant matters in relation to the Group audit including:	✓	✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Review and test controls in relation to IT hardware for back up and replication of systems, specifically enhancement to air conditioning and fire suppression for servers as a matter of urgency	Medium		
2	Strengthen ICT resilience during a major event in relation to business continuity and disaster recovery to reduce the risk that access to and functionality of significant data could be considerably compromised	High		
3	Review the policies and procedures for recovery of aged debt and should ensure that these are adequately documented and applied consistently, and should review the procedures to ensure compliance	High		
4	Take steps to address the collection fund deficit and ensure that this is brought down to a more acceptable level from its current total of £9 million.	Medium		
5	Continue to develop financial plans which support the strategic direction of departments with growth potential, ensuring that they are risk assessed and have appropriate sensitivity analysis.	High		
6	Ensure that Audit and Scrutiny functions are providing appropriate assurance and challenge to support strong governance during a period of considerable change.	Medium		
7	Ensure that the Council's Corporate Plan reflects the changing landscape within Adult Social Care and the developing interfaces between the Council, health and voluntary sectors.	High		

Appendix B: Audit opinion

We anticipate we will provide the Group/Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL

We have audited the financial statements of Shropshire Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Core Financial Statements (the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement), the Notes to the Core Financial Statements, the Group Accounts (the Group Movement in Reserves Statement, the Adjustments between Group Accounts and Authority Accounts in the Group Movements in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement and the Notes to the Group Accounts), the Housing Revenue Account (the Housing Revenue Accounts Income and Expenditure Statement, the Movement on the Housing Revenue Accounts Statement and the Notes to the Housing Revenue Account) and the Collection Fund (the Collection Fund and the Notes to the Collection Fund). The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance, Governance and Assurance and auditor

As explained more fully in the Statement of the Head of Finance, Governance and Assurance Responsibilities, the Head of Finance, Governance and Assurance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Governance and Assurance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, the Group Accounts Introduction and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements: present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, the Group Accounts Introduction and the Annual Governance Statement is consistent with the Group audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if: in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or we issue a report in the public interest under section 24 of the Act; or we make a written recommendation to the Authority under section 24 of the Act; or we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have:

completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016.
completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Act.

We are satisfied that the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016 and the objection brought to our attention so not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

Mark Stocks

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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