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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

Grant Thornton

Audit Findings

Year ending 31 March 2018

Shropshire Council

July 2018

Contents

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Headlines

This table summarises the key issues arising from the statutory audit of Shropshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income for the year, and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during June and July. Our findings are summarised on pages 5 to 14. We have identified: • one adjusting entry reducing the entity's total comprehensive income by £707k; • unadjusted misstatements totalling £2.9 million; and • an estimation uncertainty of £3.5 million. These are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. The most significant issues identified as part of our audit related to the accounting for the Council's Jersey Property Unit Trust (JPUT). This is a new area for the Council having completed the acquisition only two months before year-end, and for which they obtained extensive external advice in the short period prior to our review being undertaken. Our review has considered the accounting treatment, and in our opinion has identified a number of non-material errors. These are detailed on pages 9 and 10 of the report. The Council has declined to adjust these errors, to remain consistent with the separate advice that supports the existing accounting treatment. We have requested representations from the Council on the reasons for not adjusting these errors. We also identified a number of disclosure errors in the financial statements. To a large extent these have been corrected. Both the changes made and the areas the Council have declined to change are detailed on pages 25 to 28. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Council meeting on 26 July 2018, as detailed in [Appendix E]. These outstanding items include: - confirmation of the basis for the capital expenditure for the JPUT purchase as per the Code and Capital regulations; - receipt of management representation letter; and - review of the final set of financial statements. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited. Due to the complexity of the JPUT transaction and the additional work undertaken we will request a fee variation from the Council. This is not unusual for these types of transaction.

Headlines continued

Value for Money arrangements	**Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:** • **the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')**	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Shropshire Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 15 to 19. While we are satisfied with the Council's arrangements we highlighted a number of key actions for the Council with regard to its financial sustainability and with regard to its IT disaster recovery plan and digital transformation plan.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code. Subject to the completion of the Whole of Government Accounts consolidation process we expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements
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.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a comprehensive audit response was required for Shropshire Towns and Rural Housing (STaRH) and a targeted approach was required for the remaining components.
- Full scope audits of STaRH to be performed by the component auditor. Findings to be reported to and reviewed by group engagement team.
- An evaluation of the group's internal controls environment including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 24 July 2018, as detailed in Appendix E. These outstanding items include:

- completion of some minor substantive testing and resolution of a small number of queries on testing already performed;
- receipt of management representation letter; and
- review of the final set of financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan. The benchmark used was gross expenditure. The variance between the estimated outturn at interim and actual outturn was not significant enough to require a recalculation of this figure.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	11,648,000	11,390,000	Set at 2% of forecast gross expenditure (as at interim stage). NB: turn out position did not suggest requirement to recalculate.
Performance materiality	8,736,000	8,543,000	Set at 75% of the above; this ensures that we mitigate the risk of material misstatement via a number of close to material issues.
Trivial matters	582,400	569,500	Balances below this nature (5% of headline materiality) are deemed to be clearly trivial for audit purposes.

Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
Management have estimated future cash flows in order to support the going concern basis of the financial statements • Cash flows were estimated for a period of at least 12 months after the proposed financial statements signing date; • The entity has assumed that grant funding will continue in line with known conditions and that expenditure and other revenue trends will continue as in the past (barring known modifications)	• We have reviewed and are satisfied that managements assessment of the Council as a going concern is fair; • We believe that management's processes for making these assessments are sufficiently robust; • Assessment was based on data supplied by the Council's Strategic Financial Accountant;
Work performed	**Auditor commentary**
Management's assessment was subject to arithmetical checks, reviewed for reasonableness of assumptions and predictions and subject to stress testing.	• No material uncertainty around going concern was noted; • We are satisfied that disclosures in this area are adequate.
Concluding comments	**Auditor commentary**
	• This work does not impact our ability to issue an unmodified opinion;

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Shropshire Council.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	**Auditor commentary** • We have performed the following work in this area: – review of accounting estimates, judgements and decisions made by management – testing of journal entries – review of accounting estimates, judgements and decisions made by management – review of unusual significant transactions – review of significant related party transactions outside the normal course of business We have not noted any issues in this area which we wish to draw your attention to.

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Significant audit risks

Risks identified in our Audit Plan	Commentary
3 **Valuation of property, plant and equipment** The Council revalues its land and buildings on a triennial basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	**Auditor commentary** The following work was performed in this area; • 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 the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were 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 satisfied themselves that these were not materially different to current value. Our audit has not identified any material issues which we wish to bring to your attention.
4 **Valuation of pension fund net liability** The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**Auditor commentary** • The following work was performed in this area; • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. Our audit has not identified any issues which we wish to bring to your attention in this area.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
7	**Employee remuneration** Payroll expenditure represents a significant percentage (29%) of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions (and an interface with a sub-system) there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	**Auditor commentary** We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Add tests to be performed on completeness from the 2017/18 audit strategy matrix plus any extra tests agreed by the team (where relevant) Our audit has not identified any issues which we wish to bring to your attention in this area.
8	**Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage (71%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	**Auditor commentary** • We have undertaken the following work in relation to this risk; • evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • Searched for unrecorded liabilities by testing whether the cut off of post year end payments is appropriate. • Verify creditors to supporting documentation and subsequent payments to ensure that creditors are correctly classified and recorded in the correct period. Our audit has not identified any issues which we wish to bring to your attention in this area.

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Significant issues discussed with management

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

Issue	Commentary	Auditor view
1 Valuation and accounting treatment of unquoted equity investment acquired in year		
The purchase of the Jersey Property Unit Trusts which hold the 3 Shopping Centres in the centre of Shrewsbury is a significant transaction for the Council. This purchase supports the Council's economic regeneration objective as well as potentially bringing in an additional income stream. The purchase was made following considerable scrutiny from Members. The Council has sought independent advice from a local firm of Chartered Accountants and Tax Advisors and have used their proposed accounting treatment. We have reviewed the accounting treatments and consider that in the main they are appropriate. We have challenged some areas of the accounting treatment where we consider there is uncertainty and have identified parts of the accounting treatment where we consider that a non material error exists. We have set out our views below.		
• Accounting treatment does not reflect cost in single entity accounts.	• The Council paid £49.3 million for the 3 shopping centres in December 2017. • The Council also paid £2.4 million into an escrow account held by Browne Jacobson to mitigate against potential void guarantees for the two years post purchase. • The Council has capitalised a further £0.5 million in respect of rent free lettings which they plan to unwind over the two years post purchase. • In total the Council is disclosing a purchase price of £52.2 million which includes all elements listed above. It has determined that in the entity accounts that the value of the investment should be held at cost.	• We are satisfied that it is appropriate for the Council to hold the investment at costs in the entity accounts. • We have reviewed the items listed opposite and consider that the amount paid and therefore cost to the Council is £49.3 million for the Unit Trust. We therefore consider that this figure should be disclosed in the financial statements (rather than the £52.2 million). • The funds held in the escrow account (£2.4 million) in respect of rent guarantees will only flow to the vendor as rental income is received by the Council. If no rental income is received, then the funds will be repaid to the Council. Therefore, as this is dependent upon a future event, this should not be recognised as part of the cost as at 31 March 2018. • Similarly the Council has not made a payment for the rent free period and we consider that this should not be included as part of the cost of the purchase. • The reduction in value would result in a corresponding reduction in deferred income (the credit relating to the escrow account) to balance the group financial statements and a further reduction of £0.5 million to provisions. **In summary, we consider that the unquoted equity investment disclosed at £52.2 million is currently overstated by £2.9 million, deferred income by £2.4 million and provisions by £0.5 million. The Council has not adjusted for these items and we consider that they are errors on the entity financial statements.**
• Uncertainty exists around the valuation of one component in the group financial statements (Riverside shopping centre).	• The Council did not obtain a formal 'market value' valuation for the Riverside shopping centre as at 31 March 2018. This is a requirement of the Code for all properties with a market based valuation. • The Riverside Shopping Centre is currently disclosed at £3.5 million in the Group financial statements.	• The Council should revalue properties that have a market based valuation annually to inform the disclosures in their group financial statements. • Without a formal 'market value' valuation of the Riverside Shopping Centre, we have no surety over the current fair value of the asset. **Therefore, there is uncertainty around the full £3.5 million value on the balance sheet.**

Significant issues discussed with management continued

Issue	Commentary	Auditor view
1 Valuation and accounting treatment of unquoted equity investment acquired in year		
• Inclusion of goodwill in the group financial statements overstating the fair value of the asset.	• The Council has consolidated the financial statements from the Unit Trust into their group accounts using the line by line basis. • The Council has disclosed the purchase as a Property, Plant and Equipment (PPE) asset in the group financial statements. • The group financial statements has included the purchase price of £49.3 million with a further entry of £2.9 million of goodwill to bring the total market value back to the £52.2 million.	• We consider that the value of the property at £49.5 million is not materially misstated in the group accounts. Please note the uncertainty represented by the valuation of Riverside (see previous slide) • We consider that the goodwill stated in the group accounts is incorrect and should be removed from the financial statements (£2.8 million). This has been calculated as the difference between the purchase price of the Unit Trust as determined by the Council (£52.2 million) and the value of the assets and liabilities in the JPUT (£49.3 million) As stated earlier we consider that the purchase price is £49.3 million. • This would result in a corresponding reduction in the consolidation adjustment to remove the goodwill from the group accounts. The corresponding entry would be the 'adjustment' to long term investments. **We therefore, consider that goodwill should not be shown within the group financial statements. The Council has not adjusted for these items and we consider that they are errors on the group accounts.**
• Additional accounting policies required in the group financial statements.	• The commercial nature of the shopping centres places greater prominence on the group financial statements as they venture outside traditional public sector business. • Comprehensive accounting policies are important to ensure that the group financial statements stand in isolation and inform the reader of the decisions made upon consolidation.	• We have requested additional accounting policy disclosures relating to: ➢ The control the Council holds over each entity within the group, ➢ The basis for consolidation ➢ Material balances, e.g. PPE policies relating to the asset, specifically, the basis to hold the unit trusts at historic cost. **The Council have made these changes to the financial statements**
• Inclusion of critical judgement in relation to the purchase and accounting treatment of the Unit Trust.	• In accounting for the Unit Trusts, the Council has made several significant and critical judgements. • There was no disclosure of the critical judgements made in relation to the purchase of the shopping centres / Unit Trusts in the draft financial statements.	• We have requested that the Council include a critical judgement in the accounting policy of the single entity setting out the judgements made and the impact these have on the information contained within the financial statements. **The Council has made these changes to its financial statements.**

Auditor conclusion

Individually and collectively the balance of these issues is below materiality and therefore we will not modify our opinion on that basis. The inclusion of clear accounting policies and disclosures in relation to critical judgements are key for a reader of the accounts to understand the financial information presented.

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Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• The Authority's policy on revenue recognition is set out within note 1 as follows: • 1.2 Accruals of income and expenditure; • 1.17 Government Grants and Contributions; • 1.21 Provisions and Contingent Liabilities	• 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; • Council policy is in line with industry practice;	● (Green)
Judgements and estimates	• Key estimates and judgements include: – Useful lives and residual value of PPE; – 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 broadly reasonable and appropriately disclosed, using expert advice where available. Following some minor disclosure amendments, we have concluded that our review of key estimates and judgements has not highlighted any issues which we wish to bring to your attention.	● (Green)
Other accounting policies	• Accounting policies as set out in note 1 to the draft financial statements	• We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	● (Green)

Assessment
- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

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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**	• 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**	• We are not aware of any related parties or related party transactions which have not been disclosed. Please refer to Appendix C for details of enhanced disclosures included in this area as a result of the audit team's review.
3	**Matters in relation to laws and regulations**	• 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**	• A standard letter of representation has been requested from the Council but additional disclosures relating to the issues noted for the Jersey Property Unit Trust have been requested. These will be drafted with the Council and presented to Audit Committee and Council for consideration.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation request to various banks and other financial institutions with whom the Council transacts. This permission was granted and positive returns were received as required.
6	**Disclosures**	• Our review found no material omissions in the financial statements, barring the issues set out in Appendix C, which were satisfactorily resolved.
7	**Audit evidence and explanations**	• All information and explanations requested from management were provided.

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Other responsibilities under the Code

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

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to appendix E
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	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 of £500 million we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • Note that work is not yet completed at the time of writing. The Council has provided all required submissions to deadline; our aim is to deliver this work prior to 31 July 2018.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2017/18 audit of Shropshire Council in the audit opinion, as detailed in Appendix E. This will be subject to the completion and submission of the consolidation schedules for the Whole of Government Accounts exercise.

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Value for Money

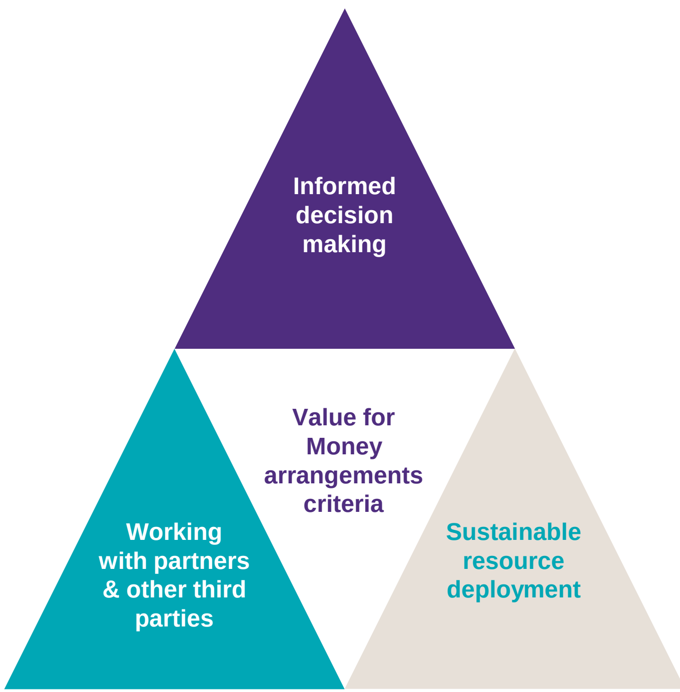
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The 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 carried out an initial risk assessment in February 2018 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2018.

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.

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Value for Money

Our work

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:

- the scale of financial challenge facing the Council in the short to medium term, and
- the level of risk the Council is accepting and mitigating in relation to infrastructure and business continuity plans.

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 on pages 17 to 19.

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.

In summary, we have concluded that the Council has adequate plans in place to deliver breakeven for 2018/19 and 2019/20. There are sufficient reserves to cover any financial shortfalls in savings or any unexpected reductions in income or funding. There are significant risks in relation to financial sustainability for 2020/21 which the Council has already highlighted in its financial strategy.

If Members continue to make appropriate and calculated decisions now, particularly in relation to service reductions and income generation, they can ensure that the Council is well placed to take further opportunities as they arise going forward. The Council needs to ensure that it remains open to new ideas and has an agile mind-set embedded within its culture.

On this basis, we have concluded that we are satisfied that the Council has appropriate arrangements in place in relation to financial sustainability for the short-term, but there are significant risks in the medium to longer-term which the Council should give its immediate attention.

During 2017/18 the Council have made reasonable progress in improving its controls with regard to IT disaster recovery and business continuity, and with regard to digital transformation. Some risks remain with regard to Disaster Recovery as the Council’s Plans have not been tested fully in a live environment. Progress on Digital Transformation has been variable with good improvements being made on Infrastructure and CRM. However, progress on the new ERP and Social Care systems have been delayed. The Digital Transformation programme is fundamental to the Council’s financial savings plans as well as to improving service delivery. The Council is aware of these risks and continues to work to progress these areas

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

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.

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Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
1 **Financial resilience over the medium to long term** • Despite opting to increase Council Tax by the maximum rate, the Council has identified a £59 million funding gap between 2018/19 to 2022/23. It has agreed a savings target of £43 million over the same period. The Council is satisfied that it will remain in financial balance in 2018/19 and 2019/20. Achieving the required savings will be extremely challenging. • We will review the Council's Financial Strategy and financial reports to Cabinet, assessing the assumptions used. We will also consider the Council's delivery and any reported key variances from the Financial Strategy.	The Council's revenue position for 2017/18 delivered a net underspend of £0.655 million. Within this position only one service line overspent, Children's Services by £4.569 million. The overspend was offset by savings elsewhere, the majority of which came from savings from the corporate centre (£3.7 million). As part of its budget, the Council set a savings target of £15.026 million. It delivered £12.479 million of these savings across a number of services. Reserves as at 31 March 2018 remain at an appropriate level. The General Fund balance moved from £14.698 million at 1 April 2017 to £15.436 million at 31 March 2018. Earmarked reserves have also increased from £63.859 million to £69.839 million. This includes £24.5 million in Financial Strategy Reserve which is used to fund one off savings proposals. The Outturn for the Housing Revenue Account for 2017/18 is an underspend of £0.007m and the level of the Housing Revenue Account reserve stands at £8.225m (2016/17 £9.031m). The outturn capital expenditure for 2017/18 is £49.608m, representing 83% of the re-profiled budget of £59.748m. All £10.140 million of this underspend has been carried forward to the 2018/19 programme. For 2018/19 the Council has set a net revenue budget of £582 million. It has increased Council Tax by 5.99% and has programmed savings of £15.54 million to enable it to contain expenditure at this level. However we note that £8.34 million of savings remain amber or 'red-rated' and the Council is developing plans to deliver these. We also note that the Council plans to use reserves of £7.133 million to fund its expenditure. We remain concerned that the Council is using non-recurrent funding from reserves to balance its budget and fund recurrent expenditure. The Council has predicted the following levels of gross expenditure in 2019/20: £576 million, 2020/21: £575 million, 2021/22: £589 million, and 2022/23: £601 million. Whether or not the Council needs to use reserves during this period is dependent upon the assumptions that are included within the forecast. However, if it is assumed that Government 'one off' funding continues then the use of reserves during this period is forecast to be low. Similarly, if the Highways savings are continued and Council Tax is raised by 2.99% per annum over the period there is a net contribution to reserves in excess of £5 million. Other significant assumptions over the period include • £10.7 million of income from commercial activity of which around £2.7m has already been delivered from Shrewsbury Shopping Centre • £9 million of savings from Digital Transformation. The Council has chosen to invest in a Shopping Centre as part of its income generation and economic regeneration strategy. The investment is approximately £52 million and it is anticipated that it, and other commercial activities, will generate approximately £10.7 million of income over the next 4-5 years. The Council has been supported with a range of detailed due diligence work from Montagu Evans and Browne Jacobson. The purchase has been funded in the short to medium term from available cash investment balances. At the time of the purchase the Council held external cash investments to the value of approximately £150 million.	**Auditor view** The Council's financial stability going forward is highly dependent on the factors set out in our findings. The Council will need to monitor decisions from the Government with regard to funding and respond accordingly. As well as responding to any Government decisions it also needs to ensure that it makes appropriate decisions with regard to Council Tax and ensures that its own income generation schemes and savings plans are delivered in full. It should further consider whether it needs to maintain the highways savings or to reverse them depending on the funding available. Risks remain to the Council from the Shopping Centre investment, in that the property may devalue and the asset may not deliver the returns that the Council anticipated. However, we are satisfied that this would not undermine the Council's financial stability in the short term as it has sufficient reserves to make up any shortfall in income generation.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
2	**Replacement of IT infrastructure / business continuity** • Previous reviews by external audit and other stakeholders have identified a requirement for the Council to design and implement a business continuity and disaster recovery strategy to mitigate the risk of a severe IT failure or damage to systems through a catastrophic event. • We will review the risk assurance frameworks established by the Council in respect of IT infrastructure to establish how the Council is identifying, managing and monitoring these risks.	There has been a significant weakness in IT infrastructure and business continuity arrangements within the Council for several years. The Head of Internal Audit Opinion has been qualified due to weaknesses in this area for the past five years. The Head of Internal Audit Annual Report for 2017/18 however, demonstrated improved assurance across IT infrastructure and in the Council's internal control environment and this has enabled the Head of Internal Audit to issue an unqualified opinion for 2017/18. The Council has had a significant turnover of Senior Leadership within the IT directorate resulting in a lack of clear vision being communicated and implemented. In October 2016, the Council allocated responsibility for IT to the Head of Human Resources and Development. Following this, the 'IT strategy 2016-19' was presented and approved by Cabinet in December 2016. This prioritised the overall vision, but also set out how the more pressing challenge of implementing adequate Business Continuity and Disaster Recovery Plans would be addressed. The Head of Human Resources and Development is the Senior Responsible Officer (SRO) for the overall Digital Transformation Programme, of which IT infrastructure and business continuity are a key part. By March 2017, the Council received assurance that the actions identified to address the IT infrastructure and business continuity risks had been implemented. However, the business continuity plans at that time remained untested with plans to undertake 'live' tests in the autumn of 2017. Since this time IT Systems recovery testing has been undertaken in some parts of the Council's business. Internal Audit have rated the recovery system as 'reasonable'. Guidance is now in place to recover all systems and has been tested in a test environment for most systems. However, 25 systems identified for disaster recovery testing are yet to be completed. Similarly, there has been no full disaster recovery testing undertaken replicating a complete hardware failure at Shirehall with fail-over to the Nuneaton recovery site. Plans for how services respond to systems dropping out need to be developed and implemented. The Council is planning to test the whole disaster recovery plan in July 2018. In September 2018 it will do a live exercise on the entire disaster recovery plan, and will use the backups at Nuneaton to recover the systems. Continued action is therefore needed in this area. <u>Digital transformation</u> Due to the scale of the risk, Digital Transformation is now reported to Audit Committee so that this Committee has oversight of the progress being made and holds the Head of Human Resources and Development to account. In addition the Performance Management Scrutiny Committee also receives a regular update on performance and wider implications of the Digital Transformation Project implementation.	**Auditor view** Progress has been made in relation to the IT infrastructure and business continuity arrangements. The Council has undertaken some IT Systems recovery testing, and plan to undertake a full disaster recovery exercise to test the embeddedness of arrangements. Until this has been fully tested it remains a risk for the Council. The Digital Transformation Project has overtaken the longer-term requirement for Business Continuity and Disaster Recovery arrangements. However, the current risk was sufficiently significant to warrant the immediate action taken and the testing of these arrangements will be key for providing the Council with greater ICT confidence in the short to medium term.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
2	**Replacement of IT infrastructure / business continuity** • Previous reviews by external audit and other stakeholders have identified a requirement for the Council to design and implement a business continuity and disaster recovery strategy to mitigate the risk of a severe IT failure or damage to systems through a catastrophic event. • We will review the risk assurance frameworks established by the Council in respect of IT infrastructure to establish how the Council is identifying, managing and monitoring these risks.	The Digital Transformation Project is progressing well for CRM, and IT infrastructure. We understand that: • ERP system – The design has been signed off by the business. However, there are some issues specifically around payroll elements. Communications and training plans are in place and are being implemented. The ability to resource the project remains an issue and the planned go live date has been delayed until 31st October 2018. In the last 2 weeks a significant push to provide more resource into the project has resulted in an increasing number of agency and contract staff that will help delivery. • Social care system – The Adults work stream has had be re-planned and there are red risks around data testing and reporting. The Children's work stream continues at red overall due to the quantity of forms to be built and other configuration items outstanding. Further pressure has been put on this work stream as the Children's form designer has left the project at short notice. Additional resources are being brought in but overall the project has been delayed. The revised planned is that Adults will go live in December, and Children's in February 2019. As the Care First system is shut down in March 2019 the council needs to ensure that its revised plans are delivered • Customer experience system – The Enghouse Contact Centre Telephony solution has now gone live for Theatre Severn, ICT Service Desk and ICT Applications Teams and Revenues and Benefits. The contact centre software is now being used by a range of Council Services. The email response system is currently being configured and Web chat facility proof of concept is at final round of testing and will go live in September. The CRM complaints process and account manager functionality are in test and scheduled for go live in Oct. The work with Hitachi and the Portal software developer is on schedule for My Shropshire Portal to go live in November. <u>IT Infrastructure</u> Additional server capacity was purchased for both Shirehall and the Council's back-up / failover site in Nuneaton. The new WIFI system has also been installed at Shirehall providing wider and more resilient coverage. The Council also replaced the most at-risk desktop computers, mainly with laptops to facilitate agile working going forward, but with another desktop computer where a business case was made. The Council replaced c1200 computers as a result of this exercise. Internal Audit reviewed the PC and hardware replacement programme in January 2018 and July 2017 respectively. They concluded that reasonable assurance could be given that an appropriate IT Strategy exists which sets out PC and hardware requirements. A further round of computer replacements is planned but requires officer and member agreement.	**Auditor view** The Council consider that the Digital Transformation Programme will be key to delivering reform by driving more responsive, flexible and joined up systems. It is anticipated that this will remove duplication, increase productivity and change delivery models to the public. This will also allow greater flexibility for data sharing across the Council to support data interrogation. A challenge for the Council will be the transition from the old IT systems and hardware to the new. There will also be a requirement to keep existing systems and hardware operational until the new are fully procured and implemented. The Council will require a cultural change to support innovation and agile working from the new Digital solutions. The project teams are working hard to mitigate the risk that departments will redesign the system they already have and not focus on the required outputs and the outcomes for the customer.

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Independence and ethics

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	3,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit of £133,845 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers' pension Return	4,800	Self-Interest (because this is a recurring fee)	See above.
Certification of Housing benefit subsidy claim	13,445	Self-Interest (because this is a recurring fee)	See above.
Certification of the Homes and Community Agency claim	TBC	Self interest (as this has the potential to become a recurring fee).	See above.
Non-audit related			
Strategic financial development programmer	2,750	Self interest (as this has the potential to become a recurring fee).	Per the above, the fee is low in comparison to the overall audit fee.
CFO Insights licence	10,000	Self-Interest (because this is a recurring fee)	See above

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Councils policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

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Action plan

We have identified [X] of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. 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.

	Assessment	Issue and risk	Recommendations
1	●	• […]	• […] **Management response** • […]
2	●	• […]	

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

DRAFT

Follow up of prior year recommendations

Assessment
✓ Action completed
X Not yet addressed

We identified the following issues in the audit of Shropshire Council's 2016/17 financial statements. Progress has been made against all 11 of the recommendations made covering the opinion work and the value for money conclusion. Some actions are due to be undertaken in the Autumn to formally conclude against these recommendations and we are clear that management is clearly reporting progress through its own governance structure.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	Although the provisions in place are adequate, the Council should ensure that it resolves backlog issues and ensures controls are regularly performed in order to reduce unnecessary expenditure of resources on chasing irrecoverable balances.	Work has been undertaken to review aged debt during the year and write off in bulk that which is deemed uncollectable. Work continues on developing the Corporate Credit Policy which is key to managing aged debt effectively. The implementation of the Enterprise Resource Planner System will necessitate a completely new set of procedures which along with improvements to billing and management information of debts outstanding, will produce a direct impact on debt levels. The reports used to identify pending write-offs in relation to Council Tax and Business Rates have been reviewed and the criteria has been changed to ensure all years are included. As well as using these reports there is an ongoing review of all debtor balances starting from the oldest year first to ensure debts are being recovered or written-off as appropriate.
2	✓	Documented policies and procedures addressing batch administration processes and related control requirements within ABS Efinancials should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them. Once established, these documents should be periodically, formally reviewed (at least annually) to ensure their continued accuracy and appropriateness. Examples of topics commonly addressed within batch administration policies and procedures include batch monitoring, batch job error handling / resolution, change control over batch jobs and schedules, and descriptions of jobs scheduled. Typically, a single set of batch administration policies exist to address high-level control requirements as defined by the organisation's IT operations or compliance group while procedures exist for individual systems which outlining batch-related processes and controls unique to that system.	A full suite of procedure notes are available for all batch administration processes. Procedures are reviewed when changes are made and communicated to relevant staff. The E5 change control process managed by the Financial Systems Team covers all changes/additions to batch administration and schedules and all changes are processed in the test environment before going live. Access to make changes to any controls within E5 is restricted to the Systems Administrators following a full change control process and authorisation by the System Owner.
3	✓	The IT Security Policy should be updated and approved by the relevant management body within the Council. A process to review the IT Security Policy on a periodic basis should also be introduced. The roll-out of the new policy should be supported by appropriate processes to ensure that staff are aware of both the contents of the Policy and their obligations which are contained within it.	The IT security policy and associated documents were re-drafted by Information Governance, with support where requested or required from IT. A monthly dashboard is also now provided to all members and staff through the members bulletin and staff newsletter. IT security is also part of planned training packages and an E-Learning module supports staff to access a range of resources to help them identify their own weak areas and make improvements.

Follow up of prior year recommendations

Assessment
✓ Action completed
X Not yet addressed

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4	✓	Security administrators of ABS Efinancials, ResourceLink and Active Directory should be provided with (a) timely, proactive notifications from HR of leaver and mover activity for anticipated activity and (b) timely, per-occurrence notifications for unanticipated mover and leaver activity. Security administrators of ABS Efinancials, ResourceLink and Active Directory should then use these notifications to either (a) end-date user accounts associated with anticipated leavers or (b) immediately disable user accounts associated with unanticipated leavers. These security administrators should then use these notifications amend and/or remove logical access belonging to movers and leavers.	Efforts have been made by the referenced departments to address this issue, however due to a lack of a common unique identifier of account between the three departments (HR – payroll number, ICT – CC number and Finance – a combination of the two methods depending on when the account was created) this work has proved difficult to progress. The ICT department blocks network access of any accounts which are not utilised for two months which will limit the potential for unauthorised access from staff who no longer work for the authority, as they will not be able to log in to the network, and as such will not be able to access the Finance or HR systems. The procurement of an ERP solution to replace the current Finance and HR systems. This has been purchased with a Hire to Retire module, which will address this issue. The ERP is due to go live in October 2018.
5	✓	It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Active Directory and ResourceLink. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).	Software has been purchased to better manage this issue and the Active Directory (AD) is being refreshed as part of plans under Digital Transformation. The AD is crucial to many elements of our planned management of Shropshire Council's IT and the structure being inputted into the ERP will be used to populate the AD – with updates also then altering it, either manually or it is hoped automatically. It is worth noting that the IT department have also adopted many elements of ITIL IT management methodology, which has, amongst many elements, Access Management as a key component of the framework. As such, key learnings from ITIL's approach are being instilled into our own IT service, particularly in the updated service desk tool Ivanti, which will further support this work as it forms a cornerstone of such changes.
6	✓	Given the criticality of data accessible through Active Directory, logs of information security events (i.e., login activity, unauthorised access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.	Due to the large volume of logs created by Active Directory it is not feasible for these to be continually reviewed by staff. They are reviewed when an issue is identified or suspected (with the appropriate inclusion of the Councils Audit team). The securities team were bolstered in 2017 and now consists of three staff working to support the departments customers and the Council's Transformation agenda. Furthermore, that team are looking at ways of automating processes and making improvements, such as those recommended. One key area being explored is the further adoption of Microsoft's security centre, which is being looked at as part of the Enterprise Agreement negotiations. It is hoped that as Microsoft's security centre is obviously related to their Active Directory that the most suitable solution will present itself as part of this work, although it's worth noting other areas are being explored. Due to the complexity and fast pace of change in relation to security, the team are doing their best to address this and will aim to have it resolved in late 2018, as this will be beyond the go live of many of the key transformation tools.

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Follow up of prior year recommendations

Assessment
✓ Action completed
X Not yet addressed

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
7	✓	Consider what services the Council can afford to deliver going forward.	The Council has moved from a one to two year budget plan to a five year Financial Strategy setting out plans to deliver £43 million of savings, assuming no benefit from Fair Funding and an approach that could bring the budget into balance by 2019/20.
8	✓	Challenge the level of savings identified within the financial plan to ensure that appropriate ambition is demonstrated.	The savings proposals demonstrate ambitious income generation targets of £10.7m and efficiency savings from digital transformation of £9m. Detailed delivery plans are being developed in these areas.
9	✓	Provide Members with sufficient progress updates against savings plans to enable a clear understanding of whether they will be delivered in line with the budget.	Quarterly monitoring reports are taken to Cabinet. Savings challenge documents are produced for each service area to enable escalation of under-performance in savings delivery to Directors and Portfolio Holders.
10	✓	Ensure that any issues identified by the live system and business continuity testing are addressed as a priority.	Business Continuity and Emergency Planning testing is due to be undertaken shortly after considerable improvements in these areas over the last twelve to eighteen months. New system testing is subject to project and programme management under the established governance arrangements for the Digital Transformation Programme.
11	✓	Quantify the benefits and savings from improved productivity of the new systems to ensure that they are captured and delivered. Without identifying and quantifying these, it will be difficult for the Council to monitor and report against them and there is a risk that they will be absorbed by other changes in systems.	The business case identified savings in excess of £9 million (a combination of cashable and non-cashable savings), based on a hybrid system. The final solution will differ in a number of ways from the original business case as implementation and testing is completed. As the final solution becomes available and new practices are identified for staff and the public a revised savings programme can be identified inline with the original savings proposal.

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Audit Adjustments

Assessment
✓ Adjusted
X Not adjusted

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of misstatements identified and requested to be adjusted

There was only one adjusting entry made as a result of the audit team's findings in year.

Adjusting entry	Detail	Auditor recommendations	Adjusted?
Omission of "Other Pension Net Liability Adjustment" line from CIES	• We noted that total comprehensive income and expenditure per the CIES did not agree to the total balance sheet movement in year.	• Upon closer review we noted that the variance related to a change to the net pensions liability in year. As this relates to an element of other comprehensive income and expenditure as opposed to the net cost of services, this required a simple disclosure change (inclusion of an additional line in other comprehensive income and expenditure) as opposed to an adjusting entry. **Management response** • The disclosure was updated.	✓

Misclassification 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.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Accounting policy on long term investments	• Enhanced disclosures required within accounting policy 1.33	• Our view was that the policy should be enhanced to provide additional clarity on issues such as the Council's valuation policy for its long term investments and, specifically, issues around control of the asset which enable them to elect to hold at historic cost under IAS 27. The Council should also include a disclosure around this issue in their critical judgements note. **Management response** • The disclosure was updated.	✓
Pension guarantees	• The Council has given pension guarantees to a number of organizations where there has been a TUPE transfer of staff.	• The Council has provided 'proper' or contractual guarantees in relation to certain pension liabilities. These are detailed in the Contingent Liabilities note. • As these are proper guarantees the Council should recognise the cost of the guarantee in its financial statements. The Council has calculated the cost of the guarantees as trivial and has therefore not recognised the amounts in its financial statements. • We note that the Council has incorrectly disclosed the guarantees as contingent liabilities. They should be disclosed separately. **Management response** • Management has assessed the value of the liability under IFRS 4 and found it to be below triviality. They have declined to amend the disclosure on this basis.	X

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Audit Adjustments

Assessment
✓ Adjusted
X Not adjusted

Misclassification and disclosure changes (continued):

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Group accounts / Collection Fund	• Prior period comparators required	• The Council's Group Accounts and Collection Fund Statements did not report at a "gross income and expenditure" level for prior periods. The Code requires the entity to provide prior period comparators for all figures within these disclosures therefore prior period figures should be analysed out by gross expenditure and income (group accounts) and Council Tax / NDR (Collection Fund). Similarly the group accounts did not report gross income and expenditure. This is not in accordance with the Code. **Management response** • The Group Accounts and Collection Fund and disclosure notes have been updated.	✓
Reserves	• Enhanced disclosures required	• In Note 10 the reserves retained for service departmental use are material (£45 million). A further analysis of these reserves should be provided. **Management response** • This will be considered in the 2018/19 financial statements	X
Schools group disclosures	• Enhanced disclosures required	• No schools 'group' disclosures in line with Code paragraphs 9.1.4.10 a) i) and b) and 9.1.4.13 as per Appendix E 1.4 of the Code. These cover understanding the composition of the group in relation to schools including the disclosure of maintained schools income, expenditure, surplus or deficit by category of school. **Management response** • This will be considered in the 2018/19 financial statements	X
Financial instruments	• The Code requires specific categories to be used for disclosure	• The Council has followed Code Guidance which states that additional categories can be used, but these are not set out in the Code. **Management response** • This will be considered in the 2018/19 financial statements	X
Various minor disclosure and clerical points	• As would be expected in the first draft of any large document, a number of other disclosure and clerical issues were noted.	• These issues are not considered sufficiently significant to warrant attention of the committee. These were individually discussed with the finance team and a satisfactory position was mutually agreed. **Management response** • This will be adjusted in the 2018/19 financial statements	✓
Related party transactions	• Enhanced disclosures required	• In order to comply with the Code, disclosures around the value of transactions and outstanding balances with group entities are required in the single entity financial statements. **Management response** • The disclosure was updated.	✓

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Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £	Balance Sheet £	Impact on total net expenditure £	Reason for not adjusting
1	**Single entity financial statements:** Cost value of the shopping centres in the Council's accounts is overstated by £2.9 million. The Council's accounting treatment also has the effect of overstating income received from the JPUT. The impact of this is not material. However, impact on the value of the unquoted equity investment is above trivial and therefore we are required to report to the Committee.	£nil	DR Deferred Income £2400k Dr Provision £500k CR Long term investment £2,900k	£nil	• Balance not material **Management response** • The Council believe that the investment value is in line with the market value of the shopping centre including a guaranteed income stream to reflect that we bought a functioning shopping centre, therefore it is not overstated. This treatment is in line with external advice received.
	Overall impact	**£nil**	**£0**	**£nil**	
2	**Group accounts** The entity has accounted for £2.7 million of goodwill within its group accounts to account for the variance between the £52.2 million deemed purchase price and the fair value of £49.5 million which the Council has used for the shopping centre assets. It is our view that, as the cost price is overstated, the goodwill should be adjusted out of the accounts.	£nil	DR Long term Investment £2775k CR Goodwill £2775k	£nil	• Balance not material **Management response** • As above, the Council does not believe that the cost price has been overstated and so the inclusion of goodwill is appropriate to the JPUT's accounts which have been consolidated in Group Accounts. Again, this treatment is in line with external advice received.
	Overall impact	**£nil**	**£0**	**£nil**	

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Audit Adjustments

Areas of estimation uncertainty

The table below provides areas where an above trivial estimation uncertainty have been noted in the 2017/18 accounts.

	Detail	Uncertain balances in CIES £	Uncertain balances in Balance Sheet £	Impact on total net expenditure £	Reason for not adjusting
1	**Single entity financial statements:** A formal valuation was not obtained for the Riverside Mall. As such, we have not been able to perform any procedures to determine whether there is a reportable variance between historical cost allocated to the asset in the Council's accounts and fair value at year end.	£nil	£3,476k	£nil	• Balance not material **Management response** • The Council has received a desktop calculation of the value of the Riverside Mall which demonstrates that there is unlikely to be a significant variance in value as at the balance sheet date. Therefore a formal valuation has not been carried out.

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Fees

We confirm below our final fees charged for the audit and provision of audit services to group companies.

Audit Fees

	Proposed fee	Final fee
Council Audit	133,845	TBC
Audit of subsidiary – Shropshire and Towns Rural Housing (STaRH)	15,880	TBC.
Audit of subsidiary – West Mercia Energy (fee being equally split between Shropshire, Herefordshire and Worcestershire Councils)	4,333	TBC
Audit / limited assurance of subsidiary company – IP & E Ltd (not yet formally appointed)	TBC	TBC
Grant / Return certification outside the PSAA regime for 2017/18	21,245	TBC
Total audit fees (excluding VAT)	**£TBC**	**£TBC**

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

Non Audit Fees

Fees for other services	Fees £
Non-audit services:	
Strategic Financial Development Programme	2,750
CFO Insights licence	10,000
	£12,750

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Audit opinion

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

Full text to be provided for Audit Committee

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