



Date: Thursday, 15 September 2022

Time: 10.00 am

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

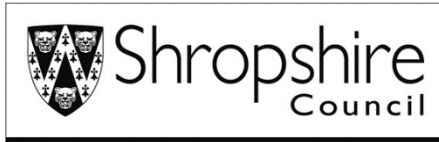
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## AUDIT COMMITTEE

### TO FOLLOW REPORT (S)

- 6 First line assurance: Providing Audit Committee with assurance on the internal controls and risk management of the Council's Cloud Services (Pages 1 - 12)**  
The report of the Assistant Director Finance and Technology is attached.  
Contact: Ben Jay 07815 473236
- 7 Second line assurance: Risk Annual Report 2021/22 incorporating Strategic Risks Update (Pages 13 - 22)**  
The report of the Risk Manager is attached. (AMENDED VERSION)  
Contact: Jane Cooper 01743 252851
- 10 Third line assurance: External Audit: Shropshire County Pension Fund Annual Audit findings (Information) 2021/22 (Pages 23 - 44)**  
The report of the Engagement Lead is attached.  
Contact: Grant Patterson (0121) 232 5296

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Committee and Date

Audit Committee  
15<sup>th</sup> September 2022

Item

Public

## Assurance on the Internal Controls and Risk Management of the Council's Cloud Services

**Responsible Officer**

James Walton

e-mail: james.walton@shropshire.gov.uk  
Tel: 01743 258915

### 1. Synopsis

*The Council uses cloud-based services in a range of ways. This report is a survey of the current position regarding internal controls and risk management for cloud-based systems.*

### 2. Executive Summary

- 2.1. This report identifies the current use of cloud-based services by the Council and considers its use of these systems (including wider networks and data centres) to house its data and network systems. It focuses on the approach to assurance for internal controls and risk management for these services.
- 2.2. This is increasingly important in the context of the rise of cyber security threats and the need to safeguard our data and systems and ensure their ongoing operation.
- 2.3. The report also considers the current position in terms of consistency of approach across different types of use of the cloud, and invites the committee to comment on the desirability of increased controls and risk management and consistency how these are being applied.

### 3. Recommendations

- 3.1. That Members of the committee consider the treatment of different systems and services accessed by the Council and the extent to

which they are 'cloud-based', and the approach to risk management and system security that is in place for them.

- 3.2. That Members of the committee consider further measures that may be appropriate, or areas for further measures that they may wish officers to look into.

## REPORT

### 4. Risk Assessment and Opportunities Appraisal

- 4.1. No new risks or opportunities arise directly from this report.

### 5. Financial Implications

- 5.1. None arising directly from this report.

### 6. Climate Change Appraisal

- 6.1. None arising directly from this report.

### 7. Background

- 7.1. Shropshire council utilises many cloud-based systems to provide services internally and externally to our citizens and partners.
- 7.2. The Council has a mix of cloud service types in use:
- a) **public cloud** such as the Council's investment in Microsoft Office, Azure and Power platform products.
  - b) **private cloud** such as the social care Liquid Logic system.
  - c) **community cloud** such as the Integrated Care Record that operates with health partners and councils across Shropshire, Staffordshire and West Midlands.
- 7.3. Hybrid cloud which is the current in house provided ICT services model and is a mix of local Infrastructure and software services that operate like a private cloud but also integrate with external cloud-based elements to provide a unified service. So, the hybrid cloud service is a service delivered with some service aspects being in a private cloud, other aspects being in a community cloud, and some elements being delivered from within local, on-premise hardware (so not in the cloud).

## 8. Additional Information

- 8.1. In recent years, we have collectively talked about use of 'the cloud' in relation to ICT activity. The cloud can be defined as "the on-demand availability of computer system resources, especially data storage and computing power, without direct active management by the user. Large clouds often have functions distributed over multiple locations, each location being a data centre."<sup>1</sup> Another definition highlights the link to 'real world' data centres: "The cloud is made up of servers in data centres all over the world. Moving to the cloud can save companies money and add convenience for users."<sup>2</sup>
- 8.2. The Council operates a variety of combinations of cloud-based and premises based solutions for different data systems. These are set out in more detail in the appendix to this report, together with the risk management approach in place for each.

## 9. Conclusions

- 9.1. The Council has an integrated approach to systems management that does not differentiate between cloud based and premises-based systems. Risk management approaches have due regard to the different way IT services are delivered but aim for the same standards of governance in all cases.
- 9.2. In the context of increasing risks around cyber and interconnected networks, it is timely to consider our approach and whether it may in some areas benefit from increased levels of attention and assurance, considering costs and benefits together.

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<sup>1</sup> [Cloud computing - Wikipedia](#)

<sup>2</sup> [What is the cloud? | Cloud definition | Cloudflare](#)

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

NA

**Cabinet Member (Portfolio Holder)**

Cllr Rob Gittings

**Local Member**

NA

**Appendices**

Appendix 1 – detailed report (plus attachment)

## Appendix 1 – detailed report regarding Assurance on the Internal Controls and Risk Management of the Council's Cloud Services

### **1 Shropshire Council – current position**

#### **Approach**

- 1.1 The Council adopts a 'Cloud where appropriate' approach. This means that on- premise and cloud options should be considered equally to find the best value and efficiency at the time of procurement. Cloud pricing models have altered significantly in recent years.
- 1.2 For specialist lines of business applications, hosted or cloud solutions increasingly offer both best value and optimum feature sets against on non-cloud/on-premise options. Many recent cloud offerings have also not been mature enough or have had unrealistic pricing models when compared with on premise hybrid provision. We continue to select options based on best value, but review options as well given the pace of change in this area.
- 1.3 As business systems (including legacy systems) are reviewed, often software and system vendors can now offer cost effective cloud solutions that - only a few years ago - were not available or too expensive compared to the local alternative. With the passage of the procurement cycle more and more systems are organically and naturally transitioning to the cloud.

### **2 Risk management**

- 2.1 The council has always endeavoured to ensure its ICT systems are secure and compliant. In recent years the growing risk of cyber attack has led to increased focus on this area and increased the level of assurance we have sought.
- 2.2 Importantly, many of the same safeguards are applicable for both cloud and non-cloud systems, such as standards of good practice and data safety applies.

### **3 Safeguarding and securing Cloud systems.**

- 3.1 With the increasing risk of cyber-attack the council has implemented extra protection activity including the creation of a new decision making and actions group (Safety and resilience) to address review and address identified weaknesses in council systems.
- 3.2 This group helps coordinate safeguarding activity such as audit recommendations, supplier advisories, proposed service

improvements to ensure a focussed approach to securing council systems.

- 3.3 The council also undertakes a number of activities to safeguard its systems such as identifying and managing service area and strategic risks via the council's risk management system. Additionally, our internal audit service undertakes frequent audit activity to identify areas of weakness or possible improvement to cloud and on-premise service provision.
- 3.4 The council is now implementing enhanced, detailed vulnerability testing, which is replacing our existing capability to identify new or existing system vulnerabilities that can be patched or mitigated. Further, a 24/7 external security response service is being engaged (currently at trial stage) to monitor council systems and alert for signs of cyber-attack.
- 3.5 Lastly, the council continues to have a specialist in-house security team monitoring and managing the security of our systems. The team also provide advice and support for new and existing cloud-based system provision.

#### **4 Data protection**

- 4.1 The council has a dedicated data protection team who consult and advise business areas around data protection obligations for new and existing systems.
- 4.2 All systems must meet legislative requirements around data security including the data protection bill. It is advised that business areas complete Data privacy Impact assessments (DPIA) before undertaking procurements to understand the implications to sensitive data. It is a requirement that a DPIA is completed before new system go live so that all proper data protection activity is undertaken.
- 4.3 As cloud based or other ICT systems are created then they can become new data assets and there is a central register of such assets that is overseen by the data protection team.
- 4.4 Information asset owners and system administrators are required to ensure their data assets are protected and secured by their suppliers in line with contractual obligations.
- 4.5 For ICT provided systems a business case for a new modern backup solution is being created to safeguard the hybrid model council systems operated by ICT.



## **5 ICT Security**

- 5.1 Vendors' products should meet best practice security controls, NCSC cloud principals and be ISO 27001 accredited in relation to their delivered services. ICT provide expert advice on the security of cloud-based systems being able to assess the detailed security capabilities of each vendors solution. The team also can assess adherence to NCSC cloud principals and other guidance against a vendor's provision.
- 5.2 It is strongly advised that all new internet facing systems have an independent external penetration test carried out to confirm that systems are secure before they go live. These often highlight issues with a vendor's solution that require attention before a system can fully go live in a compliant manner.

## **6 Legislative compliance**

- 6.1 By law all council provided ICT systems must comply with the equalities act of 2010 and cloud-based solutions are no exception. In some cases, this element of solutions delivery is not well understood in the industry and so the council works with providers who are not compliant to advise on the required changes before systems are procured or implemented.
- 6.2 The council has in house expertise within the Digital services team who frequently undertake disability access assessments and advise on any issues to business areas and vendors.
- 6.3 As mentioned under data protection council systems must adhere to UK legislation such as the data protection bill and it is the responsibility of the system owners to ensure this, and disability access are adhered to.

## **7 New system procurements.**

- 7.1 Whenever a new ICT system is procured it is required that the council's procurement rules are followed and the council's procurement team advise on suitable evaluation and procurement methods.
- 7.2 The team are aware of the other requirements of ICT systems delivery and will direct business areas to ICT and data protection teams to help ensure solutions meet policy and legislative requirements.
- 7.3 When a business area proposes a new system it should engage with the ICT security, data protection and digital services teams who can help the system owners ensure their systems meet corporate policy, best practice and legislative requirements.

- 7.4 Potential suppliers are assessed against the NCSC cloud principals, PSN code of connection, disability access, data protection, best practice and corporate policy.
- 7.5 The key elements of delivery are examined such as secure connection, rights and access management, patching schedules, data storage and protection, cost models, location of the datacentres, security accreditations, legislative compliance
- 7.6 The on-going management and administration of the system and contract should also be considered for the elements of supplier support, incident handling, service levels, exit arrangements, business continuity and disaster arrangements, dispute handling and assurance activities such as penetration testing or audits.

## **8 Information governance process**

- 8.1 The council has an information governance process that can be required to provide a governance input when issues or concerns arise with a new ICT systems procurement.
- 8.2 Sometimes issues exist with a systems implementation such as disability access non-compliance or technical security concerns that must be considered against business benefit.
- 8.3 Such concerns when framed as a business risk allow a mature discussion at the appropriate managerial or executive level balancing business gains versus potential risks.
- 8.4 Often at times appropriate mitigations or the risk profile of the system is low such that an element of risk can be accepted where a system fails to meet the required levels of assurance.

## **9 Systems Implementation**

- 9.1 Once a system has passed the assessment and procurement activities the system can be implemented. Cloud based systems fundamentally rely heavily on the supplier to guide and direct the implementation process. Depending on the type and scale of the system various stakeholders and activities must be undertaken.

- d) Detailed design
- e) Data upload
- f) System integration
- g) Connectivity
- h) User management
- i) System administration
- j) Incident handling process

- k) Security configuration
- l) System and user testing

## **10 Management of existing systems**

10.1 As indicated the Council has a mix of cloud-based systems and each requires suitable controls to be in place for the efficient on going management of that system.

10.2 The attachment to this report sets out indicative examples of the requirements of managing each type of service delivery.

10.3 Members are invited to comment on areas where they consider that additional controls may be appropriate, or further review work merited.

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**Attachment – summary of key systems, on/off cloud location, and risk management**

**1 Enterprise Public cloud: Microsoft Office, Azure and Power Platform products.**

- 1.1 This type of service provides a very largescale multiuser set of vendor defined services capable of servicing thousands of customers simultaneously. The vendor provides these defined services in accordance with their own business and technology development plan.
- 1.2 Customer's data is protected but the overall system delivery is shared by the general user base.
- 1.3 Performance of the cloud system is not guaranteed and at times overall performance can be degraded. This delivery is heavily reliant on the vendors expertise and competence. The relationship is fundamentally in the vendors favour as there is no scope to alter or challenge contract terms. Only high reputation firms are considered as the scale of risk to the organisation is potentially so high.
- 1.4 To further reduce potential risk the Council has invested in extended support with Microsoft which provides enhanced troubleshooting and support above the normal public support level.
- 1.5 Public cloud offerings have major business benefits but also bring increased challenges as the vendor can alter service capabilities without regard for the council's use of those services. To mitigate this where possible ICT manage the relationship with the supplier maintaining a close dialogue is essential to understand and prepare for the service impacting changes.
- 1.6 As we leverage the ever-increasing capabilities of the Microsoft product set 'lock in' is a fundamental risk due to the scope nature and adoption of their technology within the council. This is not a Microsoft issue as other public cloud vendors such as Googles product sets also inevitably lead to a reliance on your chosen partner of choice.

Enterprise Public cloud: Responsibility and accountability

- Supplier contract management: ICT
- Supplier relationship: ICT
- System Management and administration: ICT
- Connectivity: Vendor, ICT
- Data safeguarding: Vendor, ICT
- Data asset responsibility: Information Asset owners relevant to the information

- System integrity: Vendor

## **2 Private cloud: Social care Liquid Logic, Planning IDOX system**

- 2.1 In this model the vendor creates a specific environment for the customer to deliver the application, both the data and the application are segregated from other customers.
- 2.2 Performance of the system is more predictable as the service is designed for the capacity of the customer.
- 2.3 This model provides most control and flexibility around the delivery of services and systems and allows only high level of risk management.

Private cloud: Responsibility and accountability

- Supplier contract Management: Business area
- Supplier relationship: Business area
- System Management and administration: Business area system administrators
- Connectivity: Vendor, ICT
- Data safeguarding: Vendor
- Data asset responsibility: Information Asset owners relevant to the information
- System integrity: Vendor

## **3 Line of business applications via the public cloud: Fix my street, HAF, Registrars system**

- 3.1 In this model the vendor provides a system as a service using a shared cloud rather than a dedicated environment for the customer. Performance can be unpredictable dependent on the service use.
- 3.2 Customer data is protected but the overall system delivery is shared by the general user base.
- 3.3 This model provides less control and flexibility around the delivery of services and systems and allows only a low level of risk management.

Line of business applications (public cloud): Responsibility and accountability

- Supplier contract Management: Business area
- Supplier relationship: Business area
- System Management and administration: Business area system administrators
- Connectivity: Vendor
- Data safeguarding: Vendor

- Data asset responsibility: Information Asset owners relevant to the information
- System integrity: Vendor

#### **4 Hybrid cloud: Pensions system, Ivanti service desk system, ICON payments system**

4.1 This is the current in house provided ICT services model and is a mix of local infrastructure and software services. It operates like a private cloud but also integrates with external cloud-based elements to provide a unified service.

4.2 This model provides a great deal of control and flexibility around the delivery of services and systems and allows a greater level of risk management.

Hybrid cloud: Responsibility and accountability

- Contracts Management: ICT
- Supplier relationship: ICT
- Infrastructure management: ICT
- System Management and administration: Business area system administrators
- Connectivity: ICT
- Data safeguarding: ICT
- Data asset responsibility: Information Asset owners relevant to the information
- System integrity: ICT



Committee and Date
Audit Committee –15 <sup>th</sup> September 2022

Item

## RISK MANAGEMENT ANNUAL REPORT 2021/2022

### Responsible Officer

e-mail: [jane.cooper@shropshire.gov.uk](mailto:jane.cooper@shropshire.gov.uk)

Tel: 01743 252851

### 1. Synopsis

- 1.1 This report provides an overview of the activity of Risk, Insurance & Resilience Team during 2021/2022 and a synopsis of the current risk exposure of the authority in relation to Strategic, Operational and Project risks.

### 2. Executive Summary

- 2.1 This report sets out the challenges and achievements accomplished by the Team during 2021/2022. During 2021/2022 the team included business continuity management and emergency planning and as a result we experienced an unprecedented workload due to significant weather events and the response to and recovery from Covid-19.
- 2.2 Following a recent restructure the team is now made up of Risk Management and Business Continuity, though continues to work closely and align undertakings with emergency planning and insurance.
- 2.3 The team continues to strive to ensure that Shropshire Council embeds Opportunity Risk Management practices throughout all service areas.

### 3. Recommendations

- 3.1 Members are asked to comment on and accept the position as set out in the report.

## REPORT

### 4. Risk Assessment and Opportunities Appraisal

- 4.1 The management of risk is a key process which underpins the successful achievement of our priorities and outcomes. It forms part of the Annual Governance Statement, and the Risk & Business Continuity Team ensures that processes and protocols are established and embedded which support effective decision making.
- 4.2 Insurance is an effective method of risk transfer, and a balance of self-insurance and third-party insurance is used based on our risk appetite.

### 5. Financial Implications

- 5.1 Failure to effectively and strategically manage the risks associated with developing a sustainable budget will potentially leave the Council exposed to external challenge and financial ramifications.
- 5.2 Sustainable budget is one of the Council's strategic risks. It is subject to regular review alongside all other strategic risks with clearly identified controls and additional controls for mitigation.

## **6. Climate Change Appraisal**

- 6.1. The information contained within this report does not impact negatively on our climate change agenda.
- 6.2 Climate Change is one of the Council's strategic risks. It is subject to regular review alongside all other strategic risks with clearly identified controls and additional controls for mitigation.

## **7. Background**

- 7.1. The Audit Team undertook a risk management audit for 2021-2022. During the Covid-19 pandemic focus for the team had shifted towards business continuity, however, it was acknowledged that the team has continued with its business-as-usual activities. The audit was therefore focussed on ascertaining the current processes around the updating and review of operational risk registers and to ensure that projects risks are captured and reported to Senior Management on a regular basis in line with the Opportunity Risk Management Strategy. The final report identified the assurance level as "Reasonable" with actions required of service managers in relation to operational risk management.
- 7.2. The Opportunity Risk Management Strategy, which supports our rapidly changing environment, is reviewed on an annual basis and endorsed by the Chief Executive. The council needs to ensure that it is taking advantage of every opportunity possible, and the strategy is therefore outcome based and focuses on the achievement of our key priorities, objectives and benefits realisation.

## **8. Risk Management**

- 8.1. Strategic Risk Management
  - 8.1.1 Throughout 2021/2022 our strategic risks were reviewed on a quarterly basis and is now moving to bi-annually in line with operational risk reviews, ensuring that the level of risk exposure is monitored closely in our rapidly challenging and changing environment. The outcome of each review is reported to Executive Directors and Informal Cabinet.
  - 8.1.2 The Risk Profile & Action Plans for managing our strategic risks are embedded in the Risk Management SharePoint system. This allows the risks to be updated as frequently as required. The risk profile and action plans detail the direction of travel for each strategic risk over the year, a target risk score for the year end and clearly articulate the current controls in place and the additional controls required to mitigate and manage our strategic risk exposure effectively. Any slippage on



outstanding actions is also identified, rationale provided for the slippage and challenged where necessary.

- 8.1.3 During the year a detailed review is undertaken with Executive Directors to ensure that our current strategic risks are still relevant, defined appropriately and accurately assessed and scored. This review took place in October 2022 (delayed as a result of Covid-19 response).
- 8.1.4 Reviews of the additional controls are undertaken by all additional control owners to ensure that these are appropriate to mitigate the associated strategic risk. This includes clearly defining the required additional controls and ensuring realistic timescales are applied for delivery of these.
- 8.1.5 Strategic risks are linked, where appropriate, with the Annual Governance Statement Targeted Outcomes. This demonstrates that we are managing these Outcomes at a strategic level.
- 8.1.6 The diagram in **Appendix A** demonstrates our overall strategic risk exposure as at June 2022 (the next formal review takes place during December 2022).
- 8.1.7 As at the June 2022 review, there were 14 strategic risks on the strategic risk register, and these are each managed by specific Executive Directors. These are detailed in **Appendix B**.
- 8.1.8 Audit Committee can at any time elect to have a more detailed examination of any of the strategic risks and can invite the risk owner to a committee meeting to discuss their risk.
- 8.2 Operational Risk Management
- 8.2.1 Operational risks are reviewed on a bi-annual basis. These risks are also embedded into a specific Risk Management SharePoint site which enables risks to be more pro-actively managed in a 'live' environment enabling PowerBI reports to be run with current data.
- 8.2.2 Following the bi-annual review of operational risk exposure (May and November), reports on status are provided to all Heads of Service / Assistant Directors and the Executive Directors. This includes details of any key changes in risk exposure and any areas of concern.
- 8.2.3 Emerging operational risks, or themes, feed into and are considered as part of the strategic risk review. Strategic risks have been added to the strategic risk register as a result of risks raised through operational risk reviews (e.g. Mental Health & Wellbeing of Staff).
- 8.2.4 Currently there are 126 operational risk registers in place across the authority containing 1,385 risks in total. The diagram in **Appendix C** demonstrates our current overall operational risk exposure.

8.2.5 On an annual basis we contribute to the Horizon Scan Report (Business Continuity Institute) and share key outputs from both this report and from the Global Risks Report (World Economic Forum) with both operational and strategic risk leads.

### 8.3 Project Risk Management

8.3.1 We continue to be heavily involved and support key projects that are currently underway, or which are due to be commenced.

8.3.2 A risk register is developed at the commencement of projects and held within SharePoint. Risks are allocated to appropriate project board members for management and review. The direction of travel for projects is monitored to ensure that risks are well managed.

8.3.3 PowerBI reports are available on current risk exposure across any project. There are currently 954 project risks. Current project risk exposure is demonstrated in **Appendix D**.

### 8.4 Opportunity Risk Management Strategy

8.4.1 The Opportunity Risk Management Strategy is reviewed and updated on an annual basis. The strategy was last reviewed and signed off by the Executive Director Team on 16<sup>th</sup> August 2022.

8.4.2 The team continue to be involved in the activities of ALARM, Embrace Risk (national risk management organisation) both nationally and regionally, which puts the authority at the forefront of Risk, Insurance & Resilience for developing best practice. Jane Cooper is current Chair of the Midlands ALARM Steering Committee and sits on the board of ALARM.

8.4.3 At the ALARM National Conference the team were shortlisted for four of the eight national awards winning three of these:

- Resilience Planning Award (response to concurrent events and managing business continuity)
- Team of the Year Award (recognition of outstanding contribution to risk, insurance and business continuity)
- Risk Professional of the Year (Jane Cooper)

As a result of winning Professional of the Year, Jane Cooper is sponsored to represent the United Kingdom, Shropshire Council and ALARM at the PRIMA conference in California in June 2023.

## 9. **Business Continuity Management**

9.1 With the many challenges faced and continuing during the year, Business Continuity Management arrangements are constantly reviewed to ensure that we have relevant skilled personnel to respond and that these people are trained appropriately.

9.2 Our enhanced business continuity management arrangements now include tactical plans for HR (Human Resource), Finance, Adult Social Care and Children's Services (the latter two as a result of Covid-19).

These plans provide a corporate approach across these areas to manage significant business interruption events. All these plans are currently under review following the lessons learnt from recent concurrent events and changes to our business continuity environment.

- 9.3 A Business Continuity group, chaired by Jane Cooper, is in place comprising senior managers and assistant directors to consider business continuity impacts and the management of these to sustain business and service provision.
- 9.4 To support our business continuity management arrangements, regular testing to ensure the plans are robust is undertaken. However, the last year has seen unprecedented response activity and as a result no exercising has been undertaken or necessary. Exercising will now be reinstated during 22/23.
- 9.5 As part of our business continuity management arrangements we are developing our cyber incident preparedness business impact analysis. This will enable us to see where we have gaps in our service level arrangements and resilience and will result in an action plan to address areas of concern.
- 9.6 Under the Civil Contingencies Act we have a responsibility to raise awareness within the local business community of the need to have robust business continuity management arrangements in place to preserve their organisations/ businesses. We were due to hold the inaugural 'Shropshire Resilience Conference' in May 2020. This was open to all local businesses and included speakers and exhibitors to support resilience and recovery arrangements for local business. Unfortunately, due to Covid-19 this has been postponed to May 2023 to coincide with the national business continuity awareness week.

## **10. Additional Information**

### **10.1 Audit Team Collaborative Working**

We continue to work closely and collaboratively with Audit Team colleagues, supporting the undertaking of the risk-based audit plan meetings on an annual basis with the Head of Internal Audit. This ensures that the process is cross referenced with our strategic and business plan objectives and risk exposure.

### **10.2 Risk Management & Business Continuity Training**

We continue to provide risk management and business continuity training opportunities for all colleagues (and where requested, schools) as and when required. This year however, this has been provided virtually through online presentations. As part of our cyber incident preparedness undertaking, we will be offering awareness training to all our schools during the Autumn Term 2022.

### **10.3 External Work**

We continue to work to develop commercial relationships with external colleagues and organisations. As a result of Covid-19, this has been paused however, this will be reinstated in due course. We will continue to engage in discussions with organisations in scoping further income generating opportunities.

## **11. Conclusions**

- 11.1 The Risk & Business Continuity Team has continued to support all services across the authority, especially during this extremely challenging period of managing concurrent events.
- 11.2 Despite the challenges of the last year, the team has continued to embed Opportunity Risk Management and has developed risk management functionality within the SharePoint system and migrated all risks (Strategic, Operational and Project) into it, enabling 'real-time' reporting through PowerBI to take place.
- 11.3 The team have continued to develop business continuity management arrangements and plans to ensure the Council is as prepared as possible to respond to and recover from business impact events.

DRAFT

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Annual Governance Statement  
Risk Management Audit Report  
Opportunity Risk Management Strategy  
Business Continuity Management Policy  
Business Continuity Plan

**Cabinet Member (Portfolio Holder)**

Gwilym Butler, Portfolio Holder for Resources

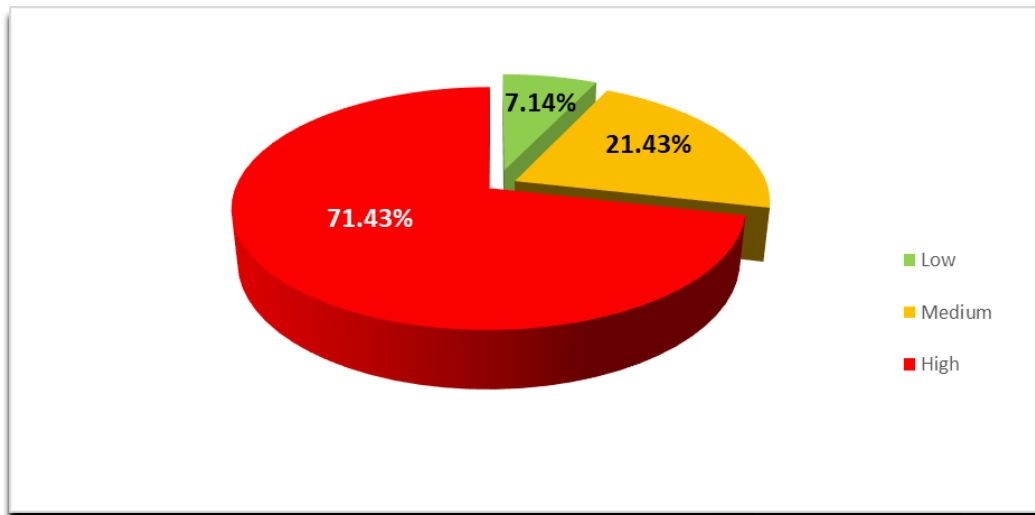
**Local Member**

N/A

**Appendices**

Appendix A – Strategic Risk Exposure (June 2022)  
Appendix B – Strategic Risk List (June 2022)  
Appendix C – Operational Risk Exposure (September 2022)  
Appendix D – Project Risk Exposure (September 2022)

## APPENDIX A – STRATEGIC RISK EXPOSURE (JUNE 2022)

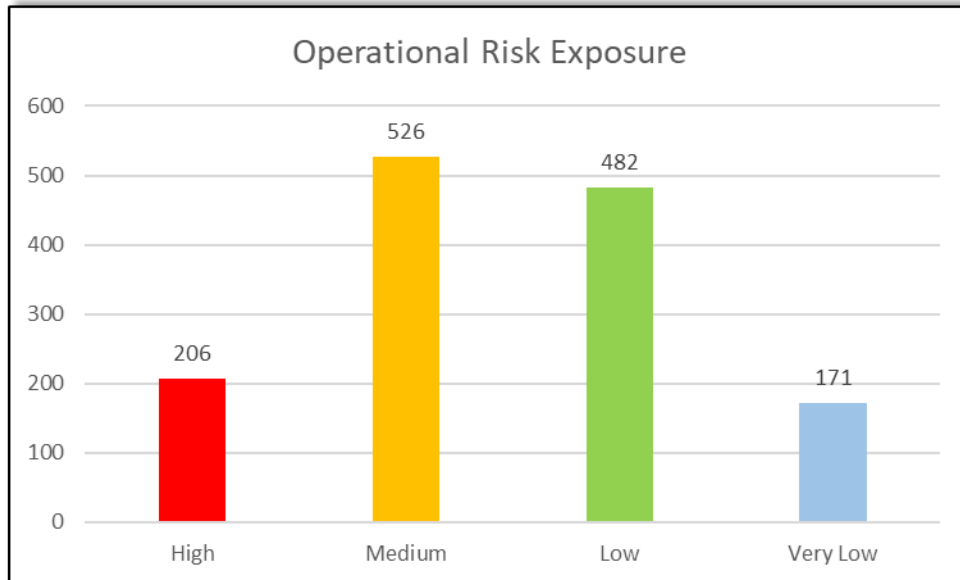


## APPENDIX B – STRATEGIC RISK LIST (JUNE 2022)

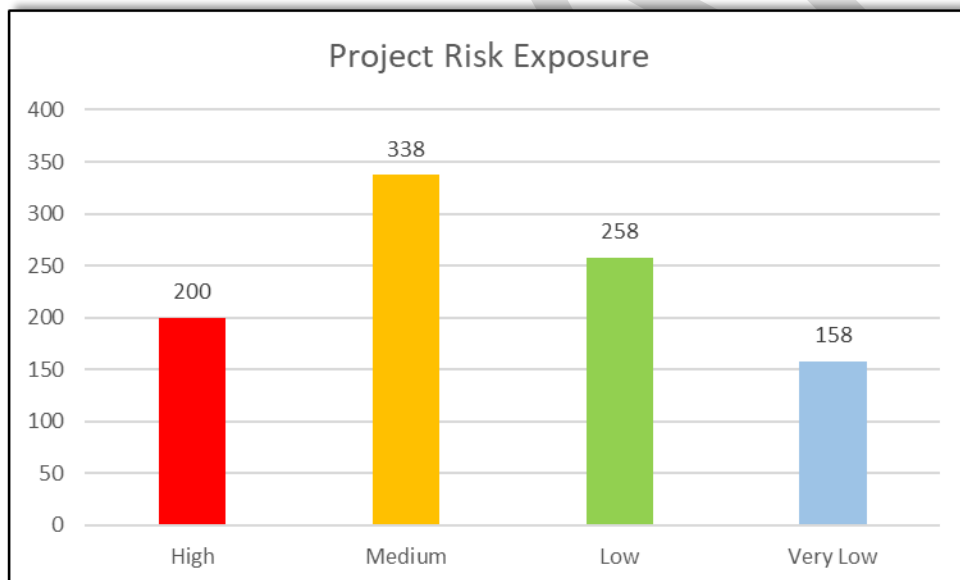
Risk	Risk Owner	L	I	Status
Ability to fund Adult Services	Tanya Miles	5	5	25
Ability to fund Children's Services	Tanya Miles	5	5	25
Failure to protect from and manage the impact of a targeted cyber-attack on ICT systems used by the authority.	James Walton	5	5	25
Safeguarding Vulnerable Children	Tanya Miles	5	4	20
Mental Health & Wellbeing of Staff	James Walton	5	4	20
Impact of Pressures in the Wider Health System	Rachel Robinson	5	4	20
Commercial Strategy	Mark Barrow	4	4	16
Climate Change	Mark Barrow	4	4	16
Balanced Budget	James Walton	4	4	16
Safeguarding Vulnerable Adults	Tanya Miles	5	3	15
Economic Growth Strategy	Mark Barrow	3	4	12
Governance	James Walton	4	3	12
ICT Infrastructure Reliance	James Walton	2	5	10
Failure to respond to the effects of Covid-19 and other respiratory diseases	Rachel Robinson	4	2	8

<b>High Risks</b>
<b>Medium Risks</b>
<b>Low Risks</b>

### APPENDIX C – OPERATIONAL RISK EXPOSURE (SEPTEMBER 2022)



### APPENDIX D – PROJECT RISK EXPOSURE (SEPTEMBER 2022)



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# The INTERIM Audit Findings for Shropshire County Pension Fund

Year ended 31 March 2022



# Contents



## Your key Grant Thornton team members are:

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## Section

1. Headlines
2. Financial statements
3. Independence and ethics

## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Shropshire County Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

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## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure 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.

Our audit work was completed remotely during June-September. Our findings are summarised on pages 16 to 20. We have not identified any material adjustments to the financial statements impacting the Pension Fund's reported financial position. Audit adjustments 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.

Our work is substantially complete.

We have not identified any material differences however we have identified £19.246m of differences in the valuation of the Fund's investments disclosed in the financial statements at 31 March 2022 and the valuation statements received from the third-party investment managers. We recognise this is primarily driven by timing differences on closing down the financial statements and receipt of these valuation statements, although we have also noted that for the past two years the roll forward approach used on HarbourVest's private equity portfolio and Global Infrastructure's infrastructure has driven the majority of the differences. The Fund should explore ways to improve estimation techniques to enhance the accuracy of the valuation of fund assets in the accounts in future years.

Management are proposing not to amend the financial statements on the basis that the differences are not material (0.8% of investment assets) and the Pension's Committee and Audit Committee will be asked to confirm their agreement.

However, the balance is between our performance materiality of £17m and headline materiality level of £23m. As part of the Firm's risk management procedures we will need to consult with a Partner Panel to confirm I am able to issue an unmodified auditor's report. We will provide a verbal update on this at the Pensions Committee meeting.

There are no other matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- receipt of the final report from our IT team on the IT systems used by the Fund and the Council
- finalisation of our journals testing
- receipt of management representation letter
- receipt and review of the final version of the Annual Report
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion at this stage will be unmodified.

# 2. Financial Statements

## Overview of the scope of our audit

This Audit Findings Report 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 will be discussed with management and the Pensions Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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 Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund'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

We have not had to alter our audit plan as communicated to you in June 2022.

## 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. We cannot issue our opinion until audit work on the Council's accounts (as Administering Authority and whose accounts the Pension Fund's accounts form part of) has been completed and therefore we anticipate this being in November 2022. These outstanding items include:

- receipt of management representation letter
- receipt and review of the final version of the Annual Report; and,
- review of the final set of financial statements.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the Treasury and Pension Team staff. The impact of the pandemic has meant that both your team and our audit team faced audit challenges again this year and both teams have had to operate virtually.

## 2. 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 levels remain the same as reported in our audit plan on 24 June 2022.

We detail in the table adjacent our determination of materiality for Shropshire County Pension Fund.

### Pension Fund Amount (£) Qualitative factors considered

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	£23m	We determined materiality for the audit of the Pension Fund's financial statements as a whole to be £23m, which is approximately 1% of the Pension Fund's net assets as at 31 March 2022. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in security and value of the Pension Fund's assets.
Performance materiality	£17m	We have determined £17m (75% of materiality) to be an appropriate level for Performance Materiality. The Pension Fund has a stable, experienced team with no history of accounting issues and this continues to be the case.
Trivial matters	£1.15m	We deem matters below 5% of materiality to be sufficiently trivial not to warrant drawing to the attention of the Pensions Committee.



## 2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p><b>Management override of controls</b> 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. The Fund faces external scrutiny of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We :</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration</li> <li>gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions</li> </ul> <p>Our audit work has not identified any significant issues in respect of management override of controls.</p>
<p><b>Valuation of Level 3 Investments</b> The Fund formerly revalues its investments annually with quarterly updates reported to Pensions Committee to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable measurable inputs. These valuations therefore represent a significant estimate by management in the financial statements.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2022.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We :</p> <ul style="list-style-type: none"> <li>evaluated management's process for valuing Level 3 investments</li> <li>reviewed the nature and basis of estimated values and considered the assurance management has over the year end valuations provided for those types of investments, to ensure that the requirements of the code are met</li> <li>independently requested year-end confirmations from investment managers and the custodian and considered the role played by the custodian in asset valuation</li> <li>for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date, reconciling those values to the values at 31 March 2022 with reference to known movements in the intervening period where necessary.</li> <li>tested valuations made during the year to see if they had been input correctly into the Pension Fund's asset register</li> <li>where available, reviewed investment manager service organisation reports on design effectiveness of internal controls</li> </ul> <p>Our audit work identified that the actual value of investments as at 31 March 2022 had risen by £19.2m from that estimated in the accounts. This was largely attributed to HarbourVest's private equity portfolio and Global Infrastructure's infrastructure portfolio final capital statements not being available when the Pension Fund's accounts presented for audit were closed down. This difference has not been amended in the Pension Fund's Statement of Accounts.</p>

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, 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 the London Pensions Fund Authority, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Shropshire Pension Fund.

There were no changes to our assessment reported in the audit plan and the audit work performed did not identify any issues in respect of revenue recognition.

#### Fraud in Expenditure Recognition

Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity that is required to meet financial targets. Having considered the risk factors relevant to the Pension Fund and the relevant expenditure streams, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed above relating to revenue recognition apply.

We therefore do not consider this to be a significant risk for the Pension Fund.

There were no changes to our assessment reported in the audit plan and the audit work performed did not identified any issues in respect of expenditure recognition.

## 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments	<p>The Pension Fund has investments in unquoted equities and pooled investment vehicles that in total are valued on the balance sheet as at 31 March 2022 at £533.8m.</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management, management rely on the valuations provided by the general partners to the private equity and infrastructure funds which the Pension Fund invests in.</p> <p>The value of the investment has increased by £124m in 2021/22, largely due to transfers of assets from Level 2 to Level 3, additional investments made in private equity and infrastructure funds and the general recovery of financial markets following the Covid-19 pandemic.</p>	<p>Management determine the value of Level 3 Investments through placing reliance on the expertise of the investment managers. As such we have sought confirmations of year end valuations from all main mandate managers. We have also tested a sample of Level 3 investments to audited accounts and final capital statements to determine if the values estimated are reasonable. Please see our findings on page 6 where we identified a £19.2m change in the final value of the private equity and infrastructure portfolio from the estimated value in the accounts (3.6% of L3 investments and 0.8% of total Fund investments).</p>	Light Purple

### Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious



## 2. Financial Statements – key judgements and estimates (cont)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments	<p>The Pension Fund has investments in pooled investment vehicles that in total are valued on the balance sheet as at 31 March 2022 at £1,229.3m.</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is based on the bid price or net asset value as determined by the investment manager.</p> <p>The value of the investment has decreased by £100m in 2021/22, largely due to transfers of assets from Level 2 to Level 1, transfers of assets from Level 2 to Level 3 and the general recovery of financial markets following the Covid-19 pandemic.</p>	<p>Management determine the value of Level 2 Investments through placing reliance on the expertise of the investment managers. As such, we have sought confirmations of year end valuations from all main mandate managers. We have also tested a sample of Level 2 investments to publicly available information. We have further reviewed the service organisation reports for the various investment managers. Only trivial variances were identified from the audit work performed.</p>	Light Purple

### Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## 2. Financial Statements - 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.

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Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Pensions Committee. 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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A letter of representation has been requested from the Pension Fund, which is included in the Committee papers.
Confirmation requests from third parties	We requested direct confirmations from the custodian and all fund managers which were all received.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
IT Systems	In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. We are awaiting receipt of the final report from our IT team on the IT systems used by the Fund and the Council.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

## 2. Financial Statements - other communication requirements



### 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).

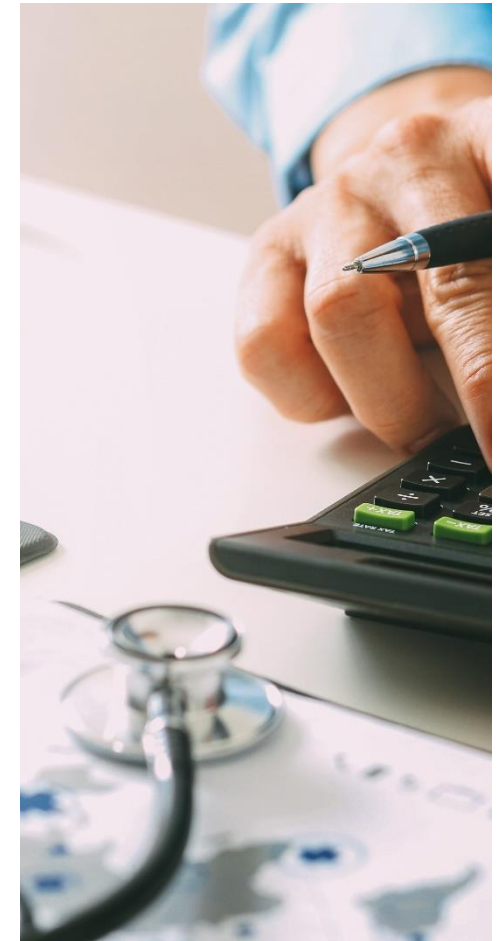
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Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> <li>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting.</li> </ul> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> <li>• the nature of the Pension Fund and the environment in which it operates</li> <li>• the Pension Fund’s financial reporting framework</li> <li>• the Pension Fund’s system of internal control for identifying events or conditions relevant to going concern</li> <li>• management’s going concern assessment.</li> </ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified</li> <li>• management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	<p>The Fund has not included comparative disclosures for some of the notes within the Financial Statements (as required by the CIPFA Code). We are satisfied that readers of the accounts would not be misled but recommend the Fund review this in line with best practice for 2022-23.</p> <p>As part of our review of Other Information within the Annual Report we have noted inconsistencies within the key performance data disclosures. These are outside of the statement of accounts and not specifically referred to in our consistency opinion on the Annual Report but we are bringing these to the attention of the Pensions Committee.</p> <p>No other inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report once we have completed our work on the Administering Authority's accounts.</p>

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# 3. 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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

# 3. Independence and ethics

## 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 Pension Fund. The following non-audit services were identified which were charged from the beginning of the financial year to the current date as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Non-audit Related			
IAS19 procedures for other bodies admitted to the pension fund.	8,000 (2021/22) and 5,000 (2020/21)	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 proposed for this work of £8,000 (£5,000 in 2020/2021) in comparison to the total fee for the audit of £33,952 and in particular relative to Grant Thornton UK LLP's turnover overall is low. 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.

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These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Pensions Committee. None of the services provided are subject to contingent fees.

# Appendices

# A. Action plan – Audit of Financial Statements

We have identified two recommendations for the Pension Fund 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 2022/23 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
<p>● Medium</p>	<p>There were differences identified between the fair value of investments reported in the financial statements and the statements received from investment managers. The bulk of these differences were identified on HarbourVest's private equity portfolio and Global Infrastructure's infrastructure portfolio. The estimates had been based on a roll forward from the 30 September 2021 and 31 December 2021 capital statements. No amendment has been made in the Pension Fund's Statement of Accounts.</p>	<p>Explore ways to improve estimation techniques to enhance the accuracy of the valuation of fund assets in the accounts in future years.</p> <p><b>Management response</b></p> <p>The draft accounts are prepared at the end of May/early June in order to meet the Council's closedown timetable. The latest HarbourVest valuations available at that time are the September valuations. The March valuations are not received by the Fund until late July/early August. The Global Infrastructure valuations are based on December valuations. Fund Officers have asked HarbourVest and Global Infrastructure Partners if valuations can be provided any earlier in future years but this is unachievable. There is always a difference between the estimates and actuals at the year end and this year is no different. The difference is below the materiality limit and amounts to less than 0.8% of the total fund value so the accounts have not been amended which is consistent with previous years when the amounts identified are below materiality.</p>
<p>● Low</p>	<p>Fund Officers regularly review services provided by Investment Managers and other service providers. As part of this monitoring exercise, management are delegated with the task of reviewing investment manager internal control reports. As part of the audit we were not provided with the below service organisation reports:</p> <ul style="list-style-type: none"> <li>• Blackrock who engage BNYM as their fund administrators (BNYM report not yet provided)</li> <li>• DRC who engage Sanne as their fund administrators (Sanne Group (Luxembourg). The report provided specifically excludes coverage of the fund administrator.</li> </ul>	<p>Matters that could potentially contradict the accuracy of services provided with specific regard to the valuation of investments could go unnoticed where these reports are not reviewed. In consultation with internal audit, the fund should consider reinstating reviews of fund administrator reports.</p> <p><b>Management response</b></p> <p>Fund Officers continue to review all external Investment Managers' Internal Control reports each year. The BNYM report has been continually chased and will be received and reviewed shortly. DRC have advised that they are able to share a letter with Grant Thornton for the Sanne Internal Control report. However, at the date of sharing the audit findings report, this remains outstanding. Both of these reports are fund administrators of the investment managers Blackrock &amp; DRC. The Blackrock and DRC internal control reports have been reviewed and there are no issues.</p>

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements

● Low – Best practice  
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# B. Follow up of prior year recommendations

We identified the following issue in the audit of Shropshire County Pension Fund's 2020/21 financial statements, which resulted in a recommendation being reported in our 2020/21 Audit findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	There was a difference between the estimated value of the HarbourVest private equity fund and the actual value included in the final capital statement of £45 million. The estimate had been based on a roll forward from the 30 September 2020 capital statement. After we raised this, an amendment was processed within the Council's Statement of Accounts before they were published on 31 July 2021.	Management have utilised the 30 September 2021 valuation adjusted for cash flows to 31 March 2022 to estimate the year-end valuation. This has resulted in an immaterial variance between the estimated valuation and the final valuation as provided by the investment manager.

## Assessment

- ✓ Action completed
- X Not yet addressed

# C. Audit Adjustments

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 adjusted misstatements

There were no adjustments made that we are required to report.

## 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	Auditor recommendations	Adjusted?
Reconciliation of transfers between levels 1 and 2 of the fair value hierarchy	Management should ensure all Statement of Accounts disclosures are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.	✓
References to the fund having direct investments in derivatives	Management should ensure that disclosures are specific to the direct assets held by the Pension Fund. In instances where disclosure is deemed to be relevant for users of the accounts, the disclosure should be made clear that the exposure in derivatives is limited to the Pension Fund's investment in pooled vehicles managed by the various investment managers.	✓
Contractual commitments to HarbourVest Partners were overstated by £6m	Management should ensure that disclosures are consistent with the agreements in place with investment managers.	Amendment will be made in final version of AR&A. We will confirm as part of our review of the final version.
The currency risk disclosure did not include foreign currency balances held by Northern Trust totalling £10m	Currency risk represents that risk that future cash flows will fluctuate because of changes in foreign exchange rates. Management should ensure that disclosures reflect a complete picture of the Pension Fund's position at year-end.	Amendment will be made in final version of AR&A. We will confirm as part of our review of the final version.

# C. Audit Adjustments



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## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Pensions Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Differences identified between the value of investments disclosed in the financial statements where some of the values are estimates at 31 March 2022 and the valuation statements received from the third party investment managers.	19,246	19,246	19,246	Not material
<b>Overall impact</b>	<b>£19,246</b>	<b>£19,246</b>	<b>£19,246</b>	

# C. Audit Adjustments (continued)



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## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Total remaining differences between value of investment assets shown in the accounts and that shown on 31 March 2021 fund capital statements. In many cases this was due to timing differences in estimated and actual values. Fund manager statements were £6.8m higher in value than that shown in the accounts. As assets are revalued at 31 March 2022 there is no impact upon the 2021/22 financial statements.	6,800	6,800	6,800	Not material
We were unable to completely verify three benefit calculations due to the additional evidence being stored on microfiche at Shire Hall and officers not having access to this currently. The value of these elements of the payments was extrapolated to demonstrate the error was not material to the accounts. The total extrapolated value of reduction is shown here. Our testing of benefits in 2021/22 has not identified similar issues.	1,624	1,624	1,624	Based on extrapolation which was not material
<b>Overall impact</b>	<b>£8,424</b>	<b>£8,424</b>	<b>£8,424</b>	

# D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee (Proposed)</b>
Pension Fund Audit	28,952	28,952
Other – remote working	0	5,000
<b>Total audit fees (excluding VAT)</b>	<b>£28,952</b>	<b>£33,952</b>

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee (proposed)</b>
Audit Related Services	0	0
Other [IAS 19 letters to auditors in 2021/22]	5,000	8,000
<b>Total non-audit fees (excluding VAT)</b>	<b>£5,000</b>	<b>£8,000</b>

## Details of variations in final fees from the proposed fee per the audit plan

We have provided a reconciliation of the audit fees below

- fees per financial statements (£40,985)
- proposed fee variation for remote working (£5,000)
- Proposed fee variation for IAS 19 work (£3,000)
- prior year fees PSAA rebate (-£7,033)
- total fees per schedule (£41,952)
- As reported in our Audit Plan presented in June we noted a potential fee variation to reflect inefficiencies of remote working. We have delivered the audit remotely. We will need to review the final time it has taken to deliver the audit but we anticipate applying the variation. This would be subject to review by PSAA Ltd.
- Following a review of fees for IAS 19 assurances nationally the Firm's Partners have determined that the core work at all Fund's should be charged at £5k with each specific response charged at £1k. We receive three requests and therefore the proposed final fee is £8k. We will review our final costs before confirming this.

