



Date: Thursday, 24 November 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)

13 Third line assurance: External Audit, Draft Audit Findings Report 2021/22 (Pages 1 - 38)

The report of the Engagement Lead is attached.
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Committee and date
Audit Committee

24 November 2022

Item

Public

Third line assurance: Draft Annual Audit Findings Report

Responsible Officer James Walton

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1. Synopsis

This report sets out the progress with the audit of the Statement of Accounts for 2021/22, the current findings arising from the audit, and the timeline for the audit opinion being agreed for the accounts.

2. Executive Summary

2.1 The timetable for producing the 2021/22 Statement of Accounts is detailed below with the current status of the key tasks:

Task	Responsible Organisation	Deadline	Current Status
Produce and approve Draft Accounts	Local Authority	31 st Jul 2022	This was completed on 20 th July 2022
External Audit	External Audit (Grant Thornton)	18 th Jul – 30 Nov 2022	Whilst the initial work commenced in July, there have been a number of delays experienced over the course of the audit.
Approve and Publish Audited Accounts	External Audit / Local Authority	30 th Nov 2022	Planned for January 2023 as awaiting statutory instrument for infrastructure assets which affects the opinion.

2.2 As outlined earlier in the year, the sign off of the 2020/21 accounts is still subject to the outcome of the CIPFA Task and Finish Group regarding how local authorities account for Infrastructure assets. It is envisaged that a

statutory instrument surrounding this item will now be passed through Parliament at the end of the 2022 calendar year and, as this also impacts the 2021/22 accounts, an audit opinion cannot be provided until January 2023 at the earliest.

- 2.3 Despite this external delay on the audit opinion, the audit on the Statement of Accounts has still been progressing and is substantially complete although there are some final audit queries still being worked through with the external audit team and a final review of the audit is still to be performed.
- 2.4 In order to provide an update on the current audit findings, Grant Thornton have produced an Interim Audit Findings Report. The Interim Draft Audit Findings Report is attached to this report as Appendix 1.

3. Recommendations

- 3.1 Members are asked to receive and comment on the Interim Draft Audit Findings Report and to confirm their agreement to an additional Audit Committee Meeting in January 2023.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1 Details of the potential risks affecting the balances and financial health of the Council are detailed within the Statement of Accounts that has been subject to audit. The Interim Audit Findings Report highlights the audit work that has been focussed on the significant risk areas identified for the 2021/22 audit.

5. Financial Implications

- 5.1 The projected external audit fee for 2021/22 is set out in the Interim Audit Findings Report. This identified that additional costs are being projected over and above the scale fee initially set for 2021/22.

6. Climate Change Appraisal

- 6.1 Nil; this report does not directly make decisions on factors related to climate change.

7. Background

- 7.1 The external audit by Grant Thornton began on 18th July 2022 and was originally anticipated to be substantially complete in late September.

However due to a number of unforeseen circumstances the audit work was delayed over the course of the summer and so has resulted in the majority of the audit work being carried out in late August – November.

- 7.2 During the last audit round, a challenge was raised over treatment of infrastructure assets in local authority accounts. A national task and finish group was established to address how infrastructure assets (usually highways) are derecognised from accounts following replacement expenditure. It is expected that a Statutory Instrument will be passed through Parliament in relation to this, however this is unlikely to come into force until late December. The impact of this will be needed to feed through into the 2020/21 Statement of Accounts, which is still open to audit, and the 2021/22 Statement of Accounts.
- 7.3 It is therefore proposed that a single item Audit Committee is established for January 2023, where the final Audit Findings Report for the 2020/21 Statement of Accounts and the 2021/22 Statement of Accounts can be considered. Also, a final audited copy of the two sets of accounts will also be presented outlining all the changes that have been made during the course of the two audits. This will allow Audit Committee to approve the two sets of account, prior to final publication of the audited Statement of Accounts.

8. External Audit Opinion

- 8.1 Grant Thornton are expected to provide an unqualified audit opinion on the 2021/22 Statement of Accounts and therefore should report as follows.

“In our opinion:

- the financial statements give a true and fair view of the financial position of the Authority and Group as at 31 March 2022 and of the Authority’s and Group’s expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.”

- 8.2 Grant Thornton have produced the Interim Audit Findings Report on the 2021/22 Statement of Accounts based on the audit work to date, and this is attached at Appendix 1.
- 8.3 The Interim Audit Findings Report does include a number of recommendations relating to the audit of 2021/22 accounts, but also a follow up of audit recommendations made in prior years that have not been progressed. A number of the recommendations not addressed relate specifically to IT controls, and following the recent appointments of the

Assistant Director of Finance and Technology and the Head of Automation and Technology, progress is now being made in all areas, and will continue to improve over the coming months. Formal management responses to these recommendations will be provided for the Final Audit Findings Report to be considered in January 2023.

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

Approval of the Council's Statement of Accounts 2021/22
CIPFA's Code of Practice (Code) on Local Authority Accounting
CIPFA/SOLACE guidance on the Annual Governance Statement
Revenue and Capital Budget 2021/22

Cabinet Member (Portfolio Holder)

Brian Williams, Chair of Audit Committee

Local Member

All

Appendices

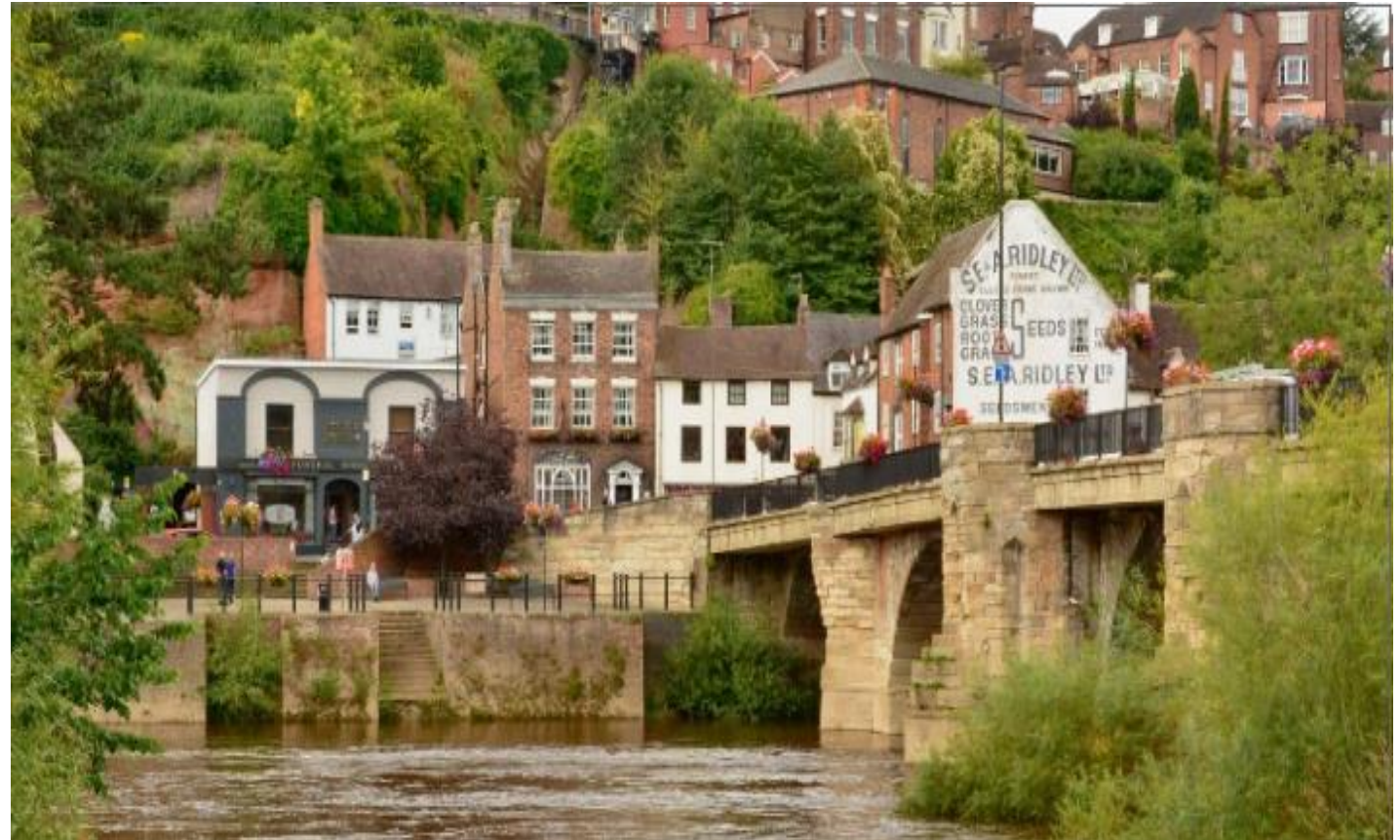
1. Interim DRAFT Audit Findings for Shropshire Council

The Interim DRAFT Audit Findings for Shropshire Council

Year ended 31 March 2022

18 November 2022

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This Interim Audit Findings presents the current observations from the audit work currently undertaken 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. Its contents will be discussed with management and the Audit Committee.

Grant Patterson

Name : Grant Patterson

For Grant Thornton UK LLP

Date : 18 November 2022

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 Council 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 Council ('the Council') and the preparation of the Council'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 Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- 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 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 has been conducted from July to date. Our interim findings are summarised on pages 5 to 20. It should be noted that our audit work is still in progress and that there are some areas of work where findings are still being concluded upon.

We acknowledge there was a delay of approximately 3 weeks to the start of the audit. The central finance team have worked with us proactively to drive audit progress at a time where there are competing workload pressures for them. We have also seen an increased direct involvement in the audit from the Estates and Facilities team which has been instrumental in progressing the more complex areas of the audit.

As we have reported previously, as the complexity and information requirements of audits has increased the need for engagement with teams outside of finance departments has also increased, many of whom may have had little contact with audit teams in the past. We have noted the help we have received from the Estates and Facilities team above but there are departments however where we and the finance team are struggling for full engagement with the audit process. We appreciate the pressures and priorities on the departments do fluctuate but this has impacted upon our ability to progress our work efficiently in some areas incurring additional audit time and effort. This is reflected in the Progress Summary on page 6. We are working with the Council's finance team to progress these issues as quickly as possible and have raised a recommendation in Appendix A.

At the time of this report our audit work has identified one adjustment to the primary statements regarding the return on pension assets. This is summarised in Appendix A and more detail is given on page 13. As noted in Appendix C, we have identified disclosure omissions in the Council's Narrative report and Annual Governance Statement in relation to group arrangements. There are also number of highly material changes throughout the financial statements in relation to prior year comparatives which have been driven by departmental reorganisation. In accordance with IAS 8 the Council needs to disclose sufficient details of prior period adjustments to enable a reader to understand the extent of such changes. The Council has provided updated disclosures in this respect which will be included in their updated financial statements.

There are a number of matters still underway as at the time of writing but from the work completed to date there are no matters of which we are aware that would require modification of our audit opinion subject to satisfactory resolution of the outstanding matters, as set out on page 6.

We have 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. It should be noted that there has been little progress in relation to IT recommendations in particular which were raised as part of the 2020/21 audit. We have therefore continued to apply alternate (and additional) audit procedures to address them.

As noted above, we anticipate that our audit report opinion will be unqualified but we will be unable to certify the audit closed until our work on the whole of government accounts is complete, we have finalised our work on the two objections received and we have issued our Annual Auditor's Report (covering our work on the Council's value for money arrangements).

This is also dependent on the conclusion of the national sector-wide issues in relation to infrastructure assets. For further detail, refer to page 13.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was sent to Cllr Williams, as Chair of the Audit Committee on 27th September 2022. This is attached at Appendix E for reference. We expect to issue our Auditor's Annual Report for consideration at the February 2023 Audit Committee. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our work in this area is underway.

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
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties. We are progressing our work in respect of the two objections received. We hope to release provisional views on one shortly. On the second one the Council has been in further communications with the objector but has not been able to fully resolve the matter and we are in the process of assessing the work we may have to undertake.

We expect to certify the completion of the audit upon the completion of the above and our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in due course.

Significant Matters

We continue to engage well with the central finance team and we have seen increased direct involvement in the audit with Estates and Facilities team. This has been instrumental in progressing complex areas of the audit.

There are departments where we and the finance team are struggling for full engagement with the audit process. This has led to delays in the receipt of information to enable us to select samples and, where samples have now been selected, there is a delay in evidence being provided. We appreciate the priorities and pressures on the departments do fluctuate however we have been unable to progress our work efficiently. We are working with the Council's finance team to progress these issues as quickly as possible, but this is incurring additional audit time and effort.

We have raised a recommendation within Appendix A to seek to address this wider engagement as part of the 2022/23 preparation process.

2. Financial Statements

Overview of the scope of our audit

This interim Audit Findings Report presents the observations arising from the audit at this time 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 and will be discussed with the Audit 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 Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

Our audit continues to be underway as at the time of writing with some outstanding queries yet to be resolved. The outstanding matters are listed overleaf and are as at the time of writing. We will update the Committee verbally of progress against these matters at the meeting on 24 November.

Acknowledgements

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

2. Financial Statements – Progress Summary

Status of the audit: the outstanding matters as at the time of writing are set out below.

Page 10

- Receipt of responses from the Council's external valuers on our queries and our consideration thereof
- Update our consideration of the Council's approach to accounting for infrastructure assets on receipt of the forthcoming statutory instrument; not due to take effect until 25 December 2022.
- Upon receipt of evidence, completion of testing in relation to Investment Property and PP&E title deeds
- Receipt of responses in relation to the Darwin Centre valuation, Highways depot impairment article, Shrewsbury Sports Village land area
- Clarification of Techforge interface journal process (PP&E interface system)
- Receipt of terms of engagement for the Council's External valuer and their clarification regarding the treatment of void areas
- Upon receipt of evidence, our completion of testing in relation to collection fund reliefs and discounts
- Receipt of IAS19 assurances from the pension fund auditor
- Completion of our work on financial instruments
- Finalisation of our work on termination agreements
- Completion of our work regarding housing benefit payments
- Completion of our review of the bad debt provision
- Finalisation of our work regarding central government receivables
- Finalisation of or work regarding journals – in particular regarding leavers
- Completion of our work regarding MRP
- Reviewing the Council's responses to our tax and cyber assessments once received
- Final manager and engagement lead review of the above once completed

- Upon receipt of external confirmations, finalisation of our work on bank and cash and Investment balances
- Finalisation of our work on depreciation.
- Completion of our work on the Council's PFI disclosures and leases
- Completion of our work on the Council's capital commitment disclosures
- Receipt of the Council's WGA pack and completion of our procedures thereon
- Receipt and review of the updated financial statements
- Obtaining and reviewing the management letter of representation
- Updating our post balance sheet events review, to the date of signing the opinion
- Final manager and engagement lead review of the above once completed

Status

- High potential to result in material adjustment or significant change to disclosures within the financial statements
- Some potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

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.

We detail in the table below our determination of materiality for Shropshire Council (single entity and group).

	Amount (£) Group materiality	Amount (£) Single entity materiality	Qualitative factors considered
Materiality for the financial statements	£9,000,000	£8,900,000	We determined materiality for the audit of the Council's financial statements as a whole to be £9m (Group) and £8.9m (single entity statements), which equates to approximately 1.4% of the Council's gross operating expenses. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.
Performance materiality	£6,300,000	£6,230,000	<p>We use a different level of materiality, performance materiality, to drive the extent of our testing. Our consideration of performance materiality is based upon a number of factors:</p> <ul style="list-style-type: none"> We have not historically identified significant control deficiencies as a result of our audit work We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment There were misstatements identified as part of the 2020/21 audit in relation to property, plant and equipment. There were a number of recommendations raised in 2020/21 in relation to the Council's IT environment. Senior management and key reporting personnel in the finance function has remained reasonably stable from the prior year audit <p>On this basis we have reduced the performance materiality from a possible 75% (standard threshold) to 70%.</p>
Trivial matters	£450,000	£445,000	We determined the threshold at which we will communicate misstatements to the Audit Committee to be £445k.
Materiality for specific transactions, balances or disclosures	0	0	<p>In accordance with ISA320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures of senior officer remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts.</p> <p>As such, we have not set a level of materiality in relation to senior officer remuneration as disclosures will be tested fully.</p>

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>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.</p> <p>The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, and 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 have :</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determined the criteria for selecting high risk unusual journals identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness <p>From the sample testing of journals undertaken we have found that they were appropriate, eligible and valid, and can be agreed to supporting evidence.</p> <p>Our approach to this work was informed by the findings made by IT audit specialists from their follow up review of the Council's IT general controls. In 2020/21 IT audit undertook a design and implementation review of the following applications, which were scoped into the review on the grounds that they impact the financial reporting of the Council:</p> <ul style="list-style-type: none"> ERP (Finance, HR and Payroll) Altair (Pension Administration system) Active Directory (domain controller authenticating and authorising users and assigning and enforcing security policies, eg password control) <p>This review has been followed up as part of the 2021/22 audit and an update on recommendations made can be found in Appendix B.</p> <p>As it was identified that there had been no progress in relation to the leaver process we have elevated the risk attached to journals in this area, leading to increased testing.</p> <p>We still have outstanding queries in this area, and therefore there may be more findings to report to you when the work is complete.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Presumed risk of fraud in revenue recognition ISA (UK) 240

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 ISA 240, and the nature of the revenue streams of Shropshire Council, we have determined that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because:

- There is little incentive to manipulate revenue recognition
- Opportunities to manipulate revenue recognition are very limited; and
- The culture and ethical frameworks of public sector bodies, 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 the Council.

Commentary

Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Council and Group's revenue streams, as they are material. We have:

Accounting policies and systems

- evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code
- updated our understanding of the Council's business processes associated with accounting for income

Fees, charges and other service income

- agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence.

Taxation and non-specific grant income

- applied substantive analytical procedures to income for national non-domestic rates and council tax

Other grants

- sample tested items back to supporting information and subsequent receipt, considering accounting treatment where appropriate.

We also designed tests to address the risk that income has been understated, by not being recognised in the current financial year.

Findings

We have no findings to bring to your attention from work done to date, but note that there are sample items outstanding with the Council in relation to Council tax and NNDR reliefs. Once received we will be able to conclude our work in respect of council tax and NNDR income.

Risk of fraud related to expenditure recognition: Public Audit Forum (PAF) Practice Note 10

In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.

Having considered the nature of the expenditure streams of Shropshire Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.

Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Council's expenditure streams, as they are material. In addition to reviewing the accounting policies as highlighted above, we have:

Expenditure

- updated our understanding of the Council's business processes associated with accounting for expenditure
- agreed, on a sample basis, operating expenditure, housing benefit expenditure, agency costs and year end creditors to invoices and cash payment or other supporting evidence
- performed substantive analytical procedures on the Council's employee remuneration costs and depreciation

We also designed tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year.

Findings

We have no findings to bring to your attention from work done to date, but note that there are queries that are yet to be resolved with the Council in respect of operating expenditure for items recently received. Furthermore we are awaiting evidence in support of a sample of housing benefit payments made.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of property plant and equipment: land and buildings

Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets.

Depreciated replacement cost (DRC) is a method of valuation that provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation.

Where DRC is used as the valuation methodology, authorities should use the 'instant build' approach at the valuation date and the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided.

For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset.

We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work
- evaluated the competence, capabilities and objectivity of the Council's internal valuer as the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met
- challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding
- engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.

Findings

Our testing is substantially complete, we do however have a number of queries outstanding at the date of writing. These are as follows:

Gross Internal Areas (GIA's)

As part of the 2020/21 audit a number of issues were identified in relation to the supporting evidence available to support Gross Internal Areas (GIA's) supplied to the Council's external valuer. It is pleasing to note the Council's Estates and Finance team have tackled this issue by engaging an external expert. The expert has remeasured the Council's CAD drawings to validate the GIA's supplied to the valuer for 31st March 2022 valuations. This is a positive step moving into 2022/23 as it gives the authority a sound starting point in relation to GIA's. We have raised a recommendation in relation to the expert engagement process

We do however need to complete the following with regard to GIA's

- As the Council has engaged with a new expert to carry out this work we do have outstanding audit procedures regarding the instructions issued to valuation experts, the scope of their work and our evaluation of the competence, capability and objectivity of the expert.
- We will need to revisit our audit findings in this area in relation to the 2020/21 audit. Upon review of the GIA areas as at 31st March 2022 there are number assets where the GIA is different to that provided as evidence to support the 2020/21 audit. This has been challenged with the Council and it is understood that when the Council's CAD plans were remeasured as part of the 2021/22 exercise a differing treatment was applied to the measurement of void areas compared to 31st March 2021. We are working with the council to quantify the impact of this change, this includes the involvement of our valuation expert.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of property plant and equipment: land and buildings (continued)

Other points to clear

- As at 31st March 2022 Shrewsbury Sports village has a land area of 27.61ha compared to 4ha as at 31st March 2021. The Council and valuer have been challenged in relation to this variance.
- The Council has engaged a new valuation expert, Knight Frank, in order to carry out the valuation of the Darwin Shopping Centre. We have outstanding audit procedures regarding the instructions issued to valuation experts, the scope of their work and our evaluation of the competence, capability and objectivity of the expert.
- Yield values used for the Darwin Shopping Centre valuation are approximately 15% as at 31st March 2022 compared to 10% used as at 31st March 2021. We have challenged the Council as to how they have satisfied themselves in relation this increase.
- Our valuation expert is currently reviewing the Council's Valuation arrangements for Montague Evans, the DVS and Knight Frank. This review is not complete at the time of writing. A verbal update will be provided at the Audit Committee.

Valuation of property plant and equipment: council dwellings

The Council contracts an expert to provide annual valuations of council dwellings based on guidance issued by the Ministry of Housing, Communities and Local Government (now Department for Levelling Up, Housing and Communities). They are valued using a beacon approach, based on existing use value discounted by the relevant social housing factor for Shropshire. Dwellings are divided into asset groups (a collection of property with common characteristics) and further divided into archetype groups based on uniting characteristics material to their valuation, such as numbers of bedrooms. A sample property, the "beacon" is selected which is considered to be representative of the archetype group and a detailed inspection carried out. The valuation of this asset is then applied to all assets within its archetype.

The key inputs into the valuation are the social housing factor, consideration of market movements and the determination of the beacons.

We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our work in this area is not complete. We have a number of requests currently with the Council's Valuer.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met
- challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding
- engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuer's work, the Council's valuer's reports and the assumptions that underpin the valuations
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of the pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls
- evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work
- assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation
- assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liabilities
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report

Findings

The Council obtained a revised IAS19 report from its actuary to update for actual returns on assets as at the balance sheet rather than the original estimate. The impact on the financial statements note 41 has been reworked by officers with the impact summarised below.

Note 41 detail	Per July 2022 Draft accounts (000's)	Revised note 41 upon receipt of updated actuary report (000's)	Movement (000's)
CIES impact - Return on plan assets increased	£49,697	£58,434	(£8,737)
Net Liability arising from defined benefit obligation decreased	(£507,361)	(£498,624)	£8,737

The financial statements will be amended in this regard and our audit procedures will be updated based in the revised IAS 19 report.

In order to complete our work in this area we will require assurances from the auditor of the Shropshire County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund's financial statements.

2. Financial Statements - Other risks

Risks identified in our Audit Plan

Operating expenditure

Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses.

Management uses judgement to estimate accruals of un-invoiced costs. We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.

Commentary

We have:

- evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness
- gained an understanding of the Council's system for accounting for non-pay expenditure
- tested a sample of balances included within trade and other payables
- tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period.
- tested a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period.

Findings

We have no findings to report to you from our work to date however procedures are subject to final review procedures by the Engagement Lead

Infrastructure assets

The CIPFA Code of Practice on Local Authority Accounting prescribes the accounting treatment and disclosure requirements for infrastructure assets. The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. The Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. These requirements of the Code derive from IAS 16 Property, Plant and Equipment.

The Council has material infrastructure assets and there could therefore be a potential risk of material misstatement related to this balance.

Infrastructure assets includes roads, highways, streetlighting and coastal assets (where relevant). In accordance with the CIPFA Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address:

1. The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets.
2. The risk that the presentation of the PP&E note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced.

For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response. We are also aware that CIPFA are consulting on adaptations to the Code which we will factor into our response once the outcome is known.

In order to be able to conclude whether there is a risk of material misstatement our response at this time is that we have:

- assessed the risks of material misstatement related to infrastructure assets
- updated our understanding of the process to explain the Council's current approach to capitalisation, derecognition and depreciation of infrastructure assets and how it complies with the Council's fixed asset register to confirm that the processes are being applied in practice.

2. Financial Statements - Other risks

Risks identified in our Audit Plan

Commentary

Infrastructure assets (continued)

Findings

We are able to sample additions to infrastructure in the current year to review the basis of asset life and conclude on whether this is reasonable and correctly factored into depreciation calculations but this becomes more difficult in respect of historic infrastructure assets because individual infrastructure assets are not recorded separately on the Council's fixed asset register: the highways network is treated as one asset, due to components working together as part of a continuous network. This is similar approach to networking computers being capitalized as one asset as part of intangible assets, but it does mean that the Council do not recognize any separate components for infrastructure assets.

There is currently no de-recognition of previous assets: the assumption is that when works are undertaken it is on assets which have reached the end of their useful life and so they have nil net book value. As such it would appear that cost and depreciation will be overstated.

Audit firms, practitioners, DLUCH and CIPFA have been in consultation with regard to this national, sector-side issue and a statutory instrument is expected to come into force as of 25 December, specifically in relation to local government's treatment of infrastructure assets. The wording of this SI is not yet finalised and therefore we are not yet in a position to conclude what further work will be necessary to satisfy ourselves over the accuracy of the Council's infrastructure assets.

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 Audit Committee have not been made aware of any incidents in the period other than those which are reported to Committee from the local counter fraud services. Furthermore 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, though note that our work is still underway as at the time of writing.
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 will be requested from the Council on completion of our work. The wording of this letter will be provided at a future Committee, once our work has been concluded.

2. Financial Statements - other communication requirements



Page 20

Issue	Commentary
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests to those organisations with which it banks, borrows and in which it invests. This permission was granted and the requests were sent.</p> <p>The majority of these requests have been returned and outstanding requests are being actively chased.</p>
Accounting practices	<p>We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.</p>
Audit evidence and explanations/ significant difficulties	<p>As noted elsewhere in this report there are several areas where queries or testing remain outstanding. We continue to engage well with the central finance team and we have seen increased direct involvement in the audit with Estates and Facilities team. This has been instrumental in progressing complex areas of the audit.</p> <p>The are departments however where there has been a lack of engagement in the audit process. This has led to delays in the receipt of reports to select samples and where samples have now been selected there is a delay in evidence being provided. We appreciate the pressures and priorities on the departments do fluctuate however we have been unable to progress our work efficiently. We are working with the Council's finance team to progress these issues as quickly as possible, but this is incurring additional audit time and effort.</p> <p>We have raised a recommendation within Appendix A to seek to address this wider engagement as part of the 2022/23 preparation process.</p>

2. Financial Statements - other communication requirements



Our responsibility

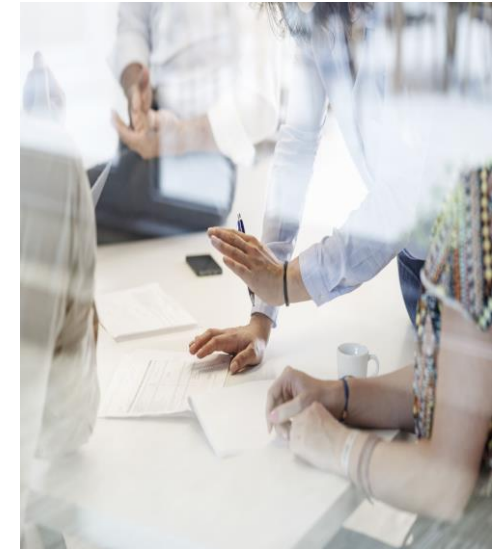
As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability 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"> 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 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. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <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 Council 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"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <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"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters at present however we need to complete our work in respect of the two objections received and the AGS will need to be updated to reflect the group and any changes or emerging issues over the coming months as it is required to comment upon events up to the date that the accounts are authorised for publishing.</p>



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

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 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 Council. The following non-audit services were identified, which were charged from the beginning of the financial year to November 2022, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of 2020/21 Teachers' Pension Return (November 2021)	5,400 (expected)	For these three audit-related services, we consider that the following perceived threats may apply:	The level of this recurring fees taken on their own are not significant in comparison to the confirmed scale fee for the audit of £103,061 (AuditorDirectoryforWebsite2021-2022_3-February-2022.xlsx (live.com)) and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of 2020/21 Housing Benefits subsidy	22,200 (final fee)	<ul style="list-style-type: none"> Self-interest (because these are recurring fees) 	Our team have no involvement in the preparation of the relevant form which is certified, and we do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to audit the financial statements.
Certification of 2020/21 Housing capital receipts	3,500 (Expected)	<ul style="list-style-type: none"> Self review Management 	The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagement in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management.
There were no non-audit related services			

Current year proposals for these audit-related services

- Housing benefits subsidy- £29,600 based on same level or work as 2020/21 plus £2,800 for each additional workbook required.
- Certification of Teachers Pension return and £7,500.
- Certification of Housing Capital receipts £5,000.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit to date and have rolled forward a further 3 from prior years . We may identify further opportunities for improvement as we conclude our work. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 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.

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Assessment	Issue and risk	Recommendations
<p>Medium</p> <p>●</p>	<p>Engagement of Experts (2021/22 reporting point)</p> <p>As part of the 2020/21 audit a number of issues were identified in relation to the supporting evidence available to support Gross Internal Areas (GIA's) supplied to the Council's external valuer. It is pleasing to note the Council's Estates and Finance team have tackled this issue by engaging an external expert. The expert has remeasured the Council's CAD drawings to validate the GIA's supplied to the valuer for 31st March 2022 valuations.</p> <p>As part of standard audit procedures regarding management experts we requested terms of engagement. These are not available and the work carried out by the expert was instructed via email and telephone.</p> <p>Without a formal engagement process the council is exposed to work being carried out which is not in line with their expectations, at timescales agrees and to the quality standards expected.</p>	<p>The council should ensure the engagement process with new suppliers involved with the asset valuation process are formalised.</p> <p>Management response – November 2022</p> <p>Management will provide a full response to be included in the final version of the Audit Findings Report</p>
<p>Medium</p> <p>●</p>	<p>Final accounts closedown (2021/22 reporting point)</p> <p>We continue to engage well with the central finance team and we have seen increased direct involvement in the audit with Estates and Facilities team throughout the audit . This has been instrumental in progressing complex areas of the audit.</p> <p>The are departments however where there has been a lack of engagement in the audit process. We appreciate the priorities and pressures on the departments do fluctuate however we have been unable to progress our work efficiently in some areas incurring additional audit time and effort.</p> <p>We are working with the Council's finance team to progress these issues as quickly as possible.</p>	<p>The Council should ensure all key departments are involved at an early stage of the 2022/23 accounts planning process and their role in the audit process discussed in order to address any expectation gaps.</p> <p>Management response- November 2022</p> <p>Management will provide a full response to be included in the final version of the Audit Findings Report</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
<p>Medium</p> <p>●</p>	<p>Evidence requested but not provided – Leaver's process. (First reported in 2020/21)</p> <p>We were unable to complete the testing for the controls around security management, specifically, the leavers process. While a significant amount of testing activity was undertaken by the audit team, there was a lack of supporting evidence to demonstrate the procedures undertaken and conclusions reached.</p> <p>Risk:</p> <p>There is a risk that key aspects of the design and development process including functional design and testing may not be appropriate.</p> <p>Furthermore, the control may not consistently operate if testing is not complete.</p>	<p>The Council will need to review the assurances it can provide around the leaver process as at present alternative audit procedures are required which are at additional cost to the Council.</p> <p>Management response- November 2022</p> <p>Management will provide a full response to be included in the final version of the Audit Findings Report</p>
<p>Medium</p> <p>●</p> <p>Page 27</p>	<p>Lack of review of the third-party IT assurance reporting for the ERP system (First reported in 2020/21)</p> <p>Unit4 provides complete Managed IT Services that include hardware and software maintenance, backup and recovery services, managed data centre services, product supply and professional IT services, 24 hours a day, 7 days a week, 365 days a year. The ERP Financial application is hosted within Unt4's data centres, Unit4 Global Cloud, Operations – Managed, Cloud Data Centre</p> <p>Risk</p> <p>While an independent service organisation assurance report SOC 1 is available, Shropshire Council has not assessed the IT control findings.</p> <p>As businesses continue towards digital transformation and a simplified IT architecture, dynamic service delivery models are becoming the norm. There is a risk that organisations have less visibility over the effectiveness of the outsourced IT control environment and whether there are sufficient controls in operation.</p>	<p>The Council should review the Independent service organisation report and assess as part of the overall IT control environment.</p> <p>Management response- November 2022</p> <p>Management will provide a full response to be included in the final version of the Audit Findings Report</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
<p>Medium</p> <p>●</p>	<p>Inadequate control over privileged accounts within Active Directory (First reported in 2020/21)</p> <p>Application access was not revoked for one Domain Admin, who has 3 accounts, one of which is named TEMP and one not required. One System Admin account should have been disabled on 31/3/21 however was still active during the period of the audit (April onwards).</p> <p>Risk:</p> <p>Users with administrative privileges at application level have the ability to bypass system-enforced internal control mechanisms and may compromise the integrity of financial data.</p> <p>The use of generic or shared accounts with high-level privileges increases the risk of unauthorised or inappropriate changes to the application or database. Where unauthorised activities are performed, they will not be traceable to an individual.</p> <p>The excessive use of accounts with privileged access increases the risk of end-users being able to:</p> <ul style="list-style-type: none"> • change system configuration settings without authorisation and approval • read and modify sensitive data, • create, modify or delete user accounts without authorisation, • delete or disable system audit logs. <p>Where system access for leavers is not disabled in a timely manner, there is a risk that former employees will continue to have access and can process erroneous or unauthorised access transactions.</p>	<p>The Council will need to review the assurances it can provide around privileged accounts. as at present alternative audit procedures are required which are at additional cost to the Council.</p> <p>Management response- November 2022</p> <p>Management will provide a full response to be included in the final version of the Audit Findings Report</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Shropshire Council's 2020/21 financial statements, which resulted in 8 recommendations being reported in our 2020/21 Audit Findings report.

We have followed up on the implementation of these recommendations and have rolled forward 5 for further consideration.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Low value assets (First reported in 2020/21)</p> <p>As part of our testing of Property Plant and Equipment it was identified that there are low value assets which are considered as part of the Council's valuation process but are not included within the financial statements.</p> <p>Through discussions with the Council these are assets with a value of below £50,000.</p> <p>We are satisfied that these assets in total are currently trivial. However, the Council will need to monitor this to ensure that the total value of assets not subject to revaluation does not significantly increase.</p>	<p>The Council should review its arrangements to monitor de-minimis assets and ensure an appropriate accounting policy is included within the financial statements.</p> <p>Management response</p> <p>All assets that fall under the requirements of valuation are included in the Council's valuation programme. A full valuation is undertaken and if the value is calculated to be under £50,000 the asset valuation is listed as de-minimis. The accounting policy has been updated to reflect this</p>
x	<p>Delivery of savings plans (First reported in 2019/20)</p> <p>The availability of non recurrent measures to balance annual budgets is diminishing and the long term reliance on reserves and one-off funding is unsustainable. The Council will need to deliver identified savings schemes and also identify and develop further schemes to support the councils financial position going forward.</p> <p>The savings plans identified need to be progressed as a matter of urgency along with the agreement of further projects and initiatives to close the budget gap.</p>	<p>The savings plans identified need to be progressed as a matter of urgency along with the agreement of further projects and initiatives to close the budget gap.</p> <p>Management response – October 2021</p> <p>A complete review of existing savings, taking into account the impact of the pandemic, has taken place. A number of unachieved savings were met from un-ringfenced Covid-19 Grant in 2020/21 and these are now expected to be delivered over the medium term. In addition to the pressures created by the pandemic, a number of opportunities around new ways of working are also emerging. The Council is undertaking a comprehensive review of its asset estate, with a view to significant rationalisation through new working practices. An overarching strategy for the authority is emerging and a revised Shropshire Plan and Financial Strategy will reflect this approach. The Council's response to the current and coming Financial Year will be based upon lessons learned from the pandemic, taking advantage of new opportunities and managing within the funding envelope set out within the short to medium term Spending Review, the 2022/23 settlement and any other Government grants. The Council's longer term strategy began in July 2021 as part of the medium term financial strategy process with budget challenge sessions involving Cabinet, Executive Directors and all relevant officers in ensuring there is a robust medium to long term plan. The outcome of the process will be included in 2022/23 financial strategy.</p> <p>Management response- November 2022</p> <p>Management will provide a full response to be included in the final version of the Audit Findings Report</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	<p>Inadequate control over privileged accounts within Active Directory (First reported in 2020/21)</p> <p>Application access was not revoked for one Domain Admin, who has 3 accounts, one of which is named TEMP and one not required. One System Admin account should have been disabled on 31/3/21 however was still active during the period of the audit (April onwards).</p> <p>Risk:</p> <p>Users with administrative privileges at application level have the ability to bypass system-enforced internal control mechanisms and may compromise the integrity of financial data.</p> <p>The use of generic or shared accounts with high-level privileges increases the risk of unauthorised or inappropriate changes to the application or database. Where unauthorised activities are performed, they will not be traceable to an individual.</p> <p>The excessive use of accounts with privileged access increases the risk of end-users being able to</p> <ul style="list-style-type: none"> change system configuration settings without authorisation and approval read and modify sensitive data, create, modify or delete user accounts without authorisation, delete or disable system audit logs. <p>Where system access for leavers is not disabled in a timely manner, there is a risk that former employees will continue to have access and can process erroneous or unauthorised access transactions.</p>	<p>Management Comments as of 2021 - Users with administrative roles within Active Directory do not have access within ERP as the systems are separate and not directly linked to each other. Any workstation or domain admin roles in Active Directory do not grant any ERP or application-level permission.</p> <p>The domain admin account mentioned was disabled so not usable, and the workstation admins have been reviewed and the accounts listed required this access. Not all were for staff, several were system accounts and accounts that don't currently need this access but may in the future are either disabled or expired.</p> <p>A further review of workstation and domain administrative roles within AD will be carried out as part of our PSN re-certification work.</p> <p>GT Comments - We inquired with Wendy Johanson (ICT Applications Manager) on 12/08/2022 and confirmed that there have been no changes or remediations which have taken place during the audit period in concern.</p> <p>Management Comments as of 2022 - Regular reviews of Active Directory accounts are undertaken, and we are in the process of finishing our administrative rights segregation programme. Remediation in progress.</p> <p>Management response- November 2022</p> <p>Management will provide a full response to be included in the final version of the Audit Findings Report</p>

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>No Current PSN Certification and No current Network diagram available (First reported in 2020/21)</p> <p>We were informed that no PSN code of Connection is currently in place or an up-to-date network diagram. We understand that there are valid and functioning boundary controls between different security networks, but due to COVID, these items were not prioritised.</p> <p>Risk</p> <p>Without performing routine health checks, penetration tests and having a CoCo Connection demonstrates that the infrastructure is sufficiently secure that its connection to the PSN would not present an unacceptable risk to the security of the network, and external and/or internal parties may be able to gain access to information assets by exploitation security vulnerabilities.</p>	<p>Management Comments as of 2021 - Although we do not currently hold a valid PSN certificate a recent cyber security health check has been completed to aid us in regaining this certification. As part of this work an up-to-date network diagram will need to be produced.</p> <p>Management Comments as of 2022 – The council has a current valid certificate. Remediated.</p> <p>GT Comments – We inquired with Wendy Johanson (ICT Applications Manager) on 12/08/2022 and confirmed that the following finding has now been remediated during the audit period in concern. We obtained supporting evidence to verify that the council now has a valid PSN certificate.</p>
x	<p>Evidence requested but not provided – Leaver's process. (First reported in 2020/21)</p> <p>We were unable to complete the testing for the controls around security management, specifically, the leavers process. While a significant amount of testing activity was undertaken by the audit team, there was a lack of supporting evidence to demonstrate the procedures undertaken and conclusions reached.</p> <p>Risk:</p> <p>There is a risk that key aspects of the design and development process including functional design and testing may not be appropriate.</p> <p>Furthermore, the control may not consistently operate if testing is not complete.</p>	<p>Management Comments as of 2021 - A wider review of the Councils starters, movers and leavers process is being planned with support from teams within IT, HR and other relevant departments. A business analyst has already begun supporting this work as it is recognized that this is an area of weakness within the Council.</p> <p>Manual processes do currently exist within the Council for managers to follow when staff leave however as this is dependent on several manual tasks they frequently aren't completed fully.</p> <p>GT Comments – We inquired with Wendy Johanson (ICT Applications Manager) on 12/08/2022 and confirmed that there have been no changes or remediations which have taken place during the audit period .</p> <p>Management Comments as of 2022 – This is forming part of the Target Operating Model projects currently in development. Remediation in progress.</p> <p>Management response- November 2022</p> <p>Management will provide a full response to be included in the final version of the Audit Findings Report,</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	<p>Lack of review of the third-party IT assurance reporting for the ERP system (First reported in 2020/21)</p> <p>Unit4 provides complete Managed IT Services that include hardware and software maintenance, backup and recovery services, managed data centre services, product supply and professional IT services, 24 hours a day, 7 days a week, 365 days a year. The ERP Financial application is hosted within Unit4's data centres, Unit4 Global Cloud, Operations – Managed, Cloud Data Centre</p> <p>Risk</p> <p>While an independent service organisation assurance report SOC 1 is available, Shropshire Council has not assessed the IT control findings.</p> <p>As businesses continue towards digital transformation and a simplified IT architecture, dynamic service delivery models are becoming the norm. There is a risk that organisations have less visibility over the effectiveness of the outsourced IT control environment and whether there are sufficient controls in operation.</p>	<p>Management Comments as of 2021 – As we move more towards cloud-based systems, we recognize the need for improved processes in this area.</p> <p>A new process will be put in place that on receipt of the SOC report it will be jointly reviewed by the Application Management Team, IT Security and Infrastructure – it will be reviewed against the pertinent elements and contract and a summary of these findings provided to the business owner.</p> <p>GT Comments – We inquired with Wendy Johanson (ICT Applications Manager) on 12/08/2022 and confirmed that there have been no changes or remediations which have taken place during the audit period.</p> <p>Management Comments as of 2022 – SOC reports currently out for review with ICT Security Specialist, ICT Infrastructure Specialist, Principal Auditor IT. Remediation in progress.</p> <p>Management response- November 2022</p> <p>Management will provide a full response to be included in the final version of the Audit Findings Report.</p>
✓	<p>Lack of review of the third-party IT assurance reporting for the Altair system. (First reported in 2020/21)</p> <p>Aquila Heywood through their parent company, Blue Chip Customer Engineering Ltd provide IT Services that include software and product supply. The controls for the software development and testing are managed by Blue Chip. The Altair pensions application is hosted by Shropshire Council on premises and controls are carried out by the IT team.</p> <p>While an independent service organisation assurance report SOC 2, Type 2 is available which covers the assessment of the IT controls carried out by Blue Chip, Shropshire Council has not assessed the IT control findings for completeness of the IT Controls for the Altair application.</p> <p>Risk</p> <p>As businesses continue towards digital transformation and a simplified IT architecture, dynamic service delivery models are becoming the norm. There is a risk that organisations have less visibility over the effectiveness of the outsourced IT control environment and whether there are sufficient controls in operation.</p>	<p>Management Comments as of 2021 – As businesses continue towards digital transformation and a simplified IT architecture, dynamic service delivery models are becoming the norm. There is a risk that organisations have less visibility over the effectiveness of the outsourced IT control environment and whether there are sufficient controls in operation.</p> <p>Management Comments as of 2022 – This was closed in October 2022. Remediated.</p> <p>GT Comments – GT inquired with Wendy Johanson (ICT Applications Manager) on 12/08/2022 and confirmed that the following finding has now been remediated during the audit period in concern. We obtained supporting evidence to verify that the Altair application is an internally hosted application to the council and therefore this finding is no longer applicable.</p>

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.

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Impact of unadjusted misstatements

The table below provides details of adjustments identified to date during the 2021/22 audit which have not been made within the final set of financial statements. We are aware the Council is updating its 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 £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
CIES impact - Return on plan assets increased	8,737		8,737	TBC
Net Liability arising from defined benefit obligation decreased		(8,737)		
				TBC

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements reported in the draft 2020/21 audit Findings report presented to this Committee in October 2021. The 2020/21 audit remains ongoing in terms of the impact of Infrastructure assets and we will need to revisit our findings in relation to asset valuations regarding GIA changes as discussed on page 13 in relation to the 2020/21 financial statements.

The final version of our Audit Findings report will incorporate our findings.

C. Audit Adjustments

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?
<p>Prior Period adjustment disclosures</p> <p>There are a number of highly material changes throughout the financial statements in relation to comparatives. This is due to departmental reorganisation. In accordance with IAS 8 the Council should disclose full details for prior period adjustments to enable the reader to understand the extent of such changes.</p>	In accordance with IAS 8 revised disclosures are required in relation to changes made to the comparatives.	TBC
<p>Narrative Report</p> <p>As per CIPFA Code paragraph 3.1.1.16 The Narrative Report should allow the users to understand how materiality and the Group Accounts boundary decisions are made in relation to what is included in the financial statements of the authority and the impact on the financial statements.</p> <p>The Council's Narrative report does not currently include this disclosure.</p>	The Council should review and update its narrative report disclosures to ensure compliant with CIPFA code	TBC
<p>Annual Governance Statement</p> <p>As per the CIPFA code paragraph 3.7.44 the Annual governance statement should include a reference to and assessment of the effectiveness of key elements of the governance framework including group activities where the activities are significant, and the role of those responsible for the development and maintenance of the governance environment such as the Authority, the Executive, the Audit Committee and others as appropriate</p> <p>The Council's Annual Governance Statement does not include this disclosure</p>	The Council should review and update its Annual Governance Statement disclosures to ensure compliant with CIPFA code	TBC
<p>Housing Revenue Account</p> <p>The Housing Revenue account is currently disclosed in whole numbers rather than rounded 000's. This could be confusing to a reader of the financial statements as it is inconsistent with other key statements</p>	Amend HRA disclosures to rounded 000's	TBC

D. Fees

We are unable to confirm our final fees charged for the audit as the work is still underway. Our proposed fees per our plan are set out below:

The fees reconcile to within £1.5k per the accounts compared to the reported value within the Audit Plan.

Audit fees	Proposed fee	Final fee
Council Audit	176,811	TBC
Audit of subsidiary company – Shropshire Towns and Rural Housing] Limited (Star)	19,000	TBC
Total audit fees (excluding VAT)	£176,811	£TBC
Non-audit fees for other services	Proposed fee	Final fee
Audit related services (page 20)	31,100	TBC
Total non-audit fees (excluding VAT)	31,100	£TBC

There are a number of objections in progress relating to the Council. Fees are charged on a time basis plus any costs for professional advice sought by us, for example legal costs. These will be reported as part of our ongoing reporting to the Audit Committee.

36. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Council's external auditors:

	2021/22 £000	2020/21 £000
Fees payable to external audit with regard to external audit services carried out by the appointed auditor	175	167
Fees payable to external audit for the certification of grant claims and returns	23	14
Fees payable in respect of other services provided by the external audit during the year	9	8
Total	207	189

E. VFM delay letter

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report.

An audit letter explaining the reasons for the delay was sent to Cllr Williams, as Chair of the Audit Committee on 27th September 2022. This letter is attached here for reference.

We expect to issue our Auditor's Annual Report for consideration at the February 2023 Audit Committee. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.



Commercial in confidence

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27 September 2022

Dear Cllr Williams,

Delay to the reporting of VFM arrangements for 2021/22

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than three months after the date of the audit opinion but will be making best endeavours to complete our work significantly before then.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours sincerely

Grant Patterson
Engagement Lead and Key Audit Partner

For and on behalf of Grant Thornton UK LLP

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