Date: Thursday, 23 November 2023

Time: 10.00 am

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

Contact: Michelle Dulson, Committee Officer
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AUDIT COMMITTEE

TO FOLLOW REPORT (S)

17 Third line of assurance: External Audit: Shropshire Council Audit Findings (Information) 2021/22 (Pages 1 - 46)

The report of the Engagement Lead is attached.
Contact: Grant Patterson (0121) 232 5296

Grant Thornton

The Audit Findings for Shropshire Council

Year ended 31 March 2022

Date of writing 15 November 2023

Audit Committee 23 November 2023

Contents

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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. Its contents have been discussed with management and with the Audit Committee.

Name : Grant Patterson
For Grant Thornton UK LLP

Date : 15 November 2023

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.

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 group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

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 group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's 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 and Pension Fund Financial Statements is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

An Interim Audit Findings Report was presented to the Audit Committee in November 2022 with a subsequent update as part of Audit Progress Report/Sector Update in February 2023.

Our audit work has been conducted remotely throughout the audit . Our findings are summarised on pages 5 to 23. Audit adjustments are detailed in Appendix C. We are reporting two material adjustments to the draft financial statements presented in July 2022 which have now been amended in the final version of the 2021/22 financial statements. Neither results in an adjustment to the Council's general fund balance.

These are as follows:

- Property, Plant and Equipment (Infrastructure) – Due to the application of accounting adjustments following publication of the Statutory instrument in December 2022 , PP&E balances have increased by £148m. Updated financial statements and a detailed paper explaining this change was presented by management to the February 2023 Audit Committee. Further details are included on page 13.
- IAS 19 Pension adjustment- Following the publication of the 31 March 2022 triennial valuation the Council's net pension liability has increased by £29.1m.

We also identified two non-trivial misstatements which have not been adjusted in the financial statements. These are as follows:

- Group financial statements - Consolidation of Cornovii Developments Limited. At the time the Council's financial statements were prepared, only draft accounts of Cornovii Developments Limited were available for consolidation purposes. Cornovii's final accounts were signed in November 2022 and values within these statements were different to the draft version used by the Council. Net £0.2m CIES impact.
- Single entity and Group financial statements - Property, Plant and Equipment additions of £1.021m have been capitalised in the incorrect accounting period.

These are detailed within Appendix C including the reason for non-adjustment. We are seeking Those Charged with Governance's agreement to management's decision not to amend for these.

A number of disclosure and misclassification misstatements were also identified and are summarised in Appendix C.

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.

We have also raised seven 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.

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the 23rd November 2023 Audit Committee. These outstanding items include:

- Response regarding the Gross internal Area of Waste Transfer site
- Review of Council's assessment of prior period adjustment regarding cashflow statement presentation adjustment and related accounts amendment
- receipt of management representation letter;
- review of the final set of financial statements;
- updating our subsequent events review, to the date of signing the opinion
- final manager and engagement lead review of the above once completed

We will be unable to certify the audit closed until our work on the whole of government accounts is complete and we have issued our Annual Auditor's Report.

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 F for reference.

In summary, the 2020/21 report has been drafted and shared with management for comment. A joint report for 2021/22 and 2022/23 has been drafted and will be shared with management by 30 November 2023.

We expect to issue our joint Auditor’s Annual Reports for 2021/22 and 2022/23 by 31 December 2023 . 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.

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.

However, we have been contacted separately by 2 Shropshire taxpayers asking us to consider matters which they believe fall under the Local Audit and Accountability Act 2014. We are:

- liaising with them further to inform them of their statutory rights and the proper challenge procedures, and
- considering whether the information provided requires investigation under the Code of Audit Practice.

We completed our work on one objection on the 17 May 2023. Work on the other is progressing and we will keep the Audit Committee abreast of this matter. The objection relates to the 2020/21 financial year.

We expect to certify the completion of the audit upon the completion of the above and our work on the Council's Value For Money arrangements, which will be reported in our Annual Auditor’s Report, as well as the completion of our work on the Whole of Government Accounts procedures.

Significant Matters

We have not identified any ither significant matters.

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 have been discussed with management.

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;
- 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 made changes to the significant risks as identified in your audit plan, as communicated to you in September 2022. We have however carried out additional work in relation to the latest triennial valuation for Shropshire Pension Fund which has recently been published. Further details are included on page 12.

Conclusion

We have substantially completed our audit of your financial statements and subject to receipt of items as detailed on page 3 we anticipate issuing an unmodified audit opinion

Acknowledgements

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

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	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: • 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 On this basis we have reduced the performance materiality from a possible 75% (standard threshold) to 70%.
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	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. As such, we have not set a level of materiality in relation to senior officer remuneration as disclosures will be tested fully.

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
Management over-ride of controls (Risk relates to Group and Authority) 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 Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, 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.	We: • 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 From the sample testing of journals undertaken we have found that they were appropriate, eligible and valid, and can be agreed to supporting evidence. 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: • 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 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. 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. **Our work in this area is complete. We identified no findings from our work in this regard.**

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
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.	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, non-specific grant income and other grants • applied substantive analytical procedures to income for national non-domestic rates and council tax. As part of this analytical procedure we are required to test a sample of discounts and reliefs across the CT and NDR systems. The Council provided detailed reports to select sample items however the report was not as at 31st March 2022. As such they did not agree to values within the financial statements. Differences were trivial however we have raised a recommendation within appendix A to ensure all necessary reports to support the financial statements are ran at the year end date • 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. **Our work in this area is complete. We identified no findings from our work in this regard.**
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. **Our work in this area is complete. We identified no findings from our work in this regard.**

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 external 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 theses are not materially different from current value at year end. Findings Our work is now complete. We have not identified any material issues in our work however the following reporting points have been noted. We have raised recommendations in relation to the above points (R1, and R2 within Appendix A) **Gross Internal Areas (GIA's) (R1)** 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 (GIAs) 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 GIAs supplied to the valuer for 31st March 2022 valuations. Additional work has been carried out to review the updated GIA exercise undertaken by the Council. No issues have been identified as part of our review and moving into 2022/23 as it gives the authority a sound starting point in relation to GIA's. Continued overleaf

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of property plant and equipment: land and buildings - continued	**Number of management experts (R2)** The Council now engages with four valuation experts in relation to its asset portfolio, five including the 2021/22 CAD expert although it is appreciated this is not a regular appointment. Whilst we accept the Council does have a complex asset base, when compared to similar organisations, it is unusual for four experts to be involved in the valuation of PP&E. The Council should review these arrangements annually to ensure all engagements remain appropriate and necessary. There are a number of audit procedures required in our assessment of managements expert. This work is required for each expert appointed by the Council. As such this incurs additional time and expense. **Asset additions testing (R5)** The population provided for asset addition testing included £532k of transactions dated prior to the 2021/22 financial year. The Council has a policy of not accruing for capital items at year end below £75k which does explain the majority of transactions within the £532k. One item of £191k was identified which was in the incorrect financial year and should have been capitalised in 2020/21. Whilst this is trivial in nature, we have now reviewed the population of asset additions capitalised in the 2022/23 financial year. There are £1.021m assets capitalised in 2022/23 which should have been capitalised in 2021/22. This has been reported as an uncorrected misstatement. As at 31st March 2022 Property, plant and equipment additions are understated by £1.021m as are capital creditors.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	**Commentary**
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, Communicates 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 characterises 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 Council's external 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 **Our work in this area is complete. We identified no findings from our work in this regard.**

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 is an admitted body to Shropshire Pension Fund. The latest triennial valuation for Shropshire County Pension Fund has recently been published. This valuation, which is at 31 March 2022, provides updated information for the net pension liability on the Council's balance sheet, particularly in respect of membership data and demographic assumptions. As a result, we requested that management obtain a revised report from their actuary, detailing what impact this updated information had on its net pension liability disclosures at 31 March 2022. This revised report showed that the impact was material and so management have adjusted the financial statements accordingly. As a result, the Council's share of the pension fund's assets has increased by £5.1m and its share of the pension fund's liabilities has increased by £34.3m. Our work has not identified any issues in respect of these adjustments (or report on any issues identified) Additional audit work has been required in respect of this issue, resulting in an increase to the audit fee. This fee will be discussed and agreed with the Council.. This included obtaining assurance in respect of updated membership data, considering the reasonableness of revised assumptions and estimates and checking the accuracy of management's adjustments to the financial statements. The financial statements have been amended in this regard . **Our audit work is now complete and has not identified any issues in respect of valuation of the pension fund liability.**

2. Financial Statements - Other risks

Risks identified in our Audit Plan	**Commentary**
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.	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. **Our work in this area is complete. We identified no findings from our work in this regard.**
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.	As part of the prior year, 2020/21, audit we identified the following inherent risks in relation to infrastructure assets were: • an elevated risk of the overstatement of Gross Book Value and accumulated depreciation figures, due to lack of derecognition of replaced components • a normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairment of infrastructure assets and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges. We worked with CIPFA and the English Government to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions have been put in place in the interim. These short-term solutions include the issue of a Statutory Instrument (SI) by government. The English SI was laid before Parliament on 30 November 2022 and came into force on 25 December 2022. CIPFA issued an update to the Code for infrastructure assets in November 2022 and issued further guidance in January 2023 in relation to useful economic lives (UELs). The 2020/21 financial statements were prepared prior to the emergence of the Infrastructure issue. As the issue emerged, as part of the 2021/22 accounts preparation process, the Council, admirably, reviewed its Infrastructure asset lives and revised balances as they deemed appropriate, in the absence of any firm guidance. Asset lives were changed as a result of this and the impact of these changes incorporated into the draft 2021/22 accounts as presented to the Audit Committee in July 2022. Following the issue of the SI in December 2022 and clarity of actions required by local authorities the Council recognised that there was still an information deficit in some areas and adjusted its financial statements based on this guidance. The impact of this for the 2021/22 financial statements is that PP&E balances are now £148m higher than the draft financial statements presented for audit in July 2022. Updated versions of the 2021/22 financial statements, including the Council's full adoption of the SI were reported by management to the Audit Committee in February 2023.

2. Financial Statements - Other risks

Risks identified in our Audit Plan	Commentary
Infrastructure assets (continued)	As part of the audit we completed the following work focusing on the Council's current year's infrastructure assets: - Reviewed and challenged the arrangements that the Council has in place around impairment of infrastructure assets - Evaluated management's processes and assumptions for the calculation of the estimate including review of in-year depreciation and associated UELs - Challenged the information and assumptions used to inform the estimate - Considered whether there has been any replacement of assets that have not been fully depreciated and evaluated the subsequent derecognition of the replaced assets. Based on our work, we are satisfied that the Council has: • correctly applied the SI and the requirements in the CIPFA Code update • appropriately removed the gross book value and accumulated depreciation from its disclosures adding a new disclosure setting out opening net book value and any in-year movements • not identified any prior period adjustments requiring disclosure in the accounts. **Our audit work has not identified any issues in respect of valuation of infrastructure assets.**

2. Financial Statements – Key findings arising from the group audit

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

Our work group components is complete. Our findings are summarised below.

Component	Individually Significant?	Approach per Audit Plan	Findings
Shropshire Council	Yes	Full scope UK statutory audit performed by Grant Thornton UK LLP	See section 2 of this report
Shropshire Towns and Rural (STaR) Housing Ltd	No	Analytical review performed by Grant Thornton UK LLP.	No issues identified.
West Mercia Energy	No	Analytical review performed by Grant Thornton UK LLP.	No issues identified.
Cornovii Developments Limited	No	Analytical review performed by Grant Thornton UK LLP.	We have reported an unadjusted misstatement within Appendix C.
IP &E Limited	No	Analytical review performed by Grant Thornton UK LLP.	No issues identified.
West Mercia Energy (Pension)	No	Analytical review performed by Grant Thornton UK LLP.	No issues identified.
SSC No 1 Limited	No	Analytical review performed by Grant Thornton UK LLP.	No issues identified.

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**
Land and Buildings – Other - £404.6m	Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its in-house valuer to complete the valuation of properties as at 31 March 2022. The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years but are subject to an annual desktop review.	• We have engaged our own valuer to assist with our work and challenge in this area. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • There have been no changes to the valuation method this year. • We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging the floor areas. Our work is now complete. We have not identified any material issues in our work however as previously detailed on pages 9 and 10 of this report we have raised recommendations in relation our work in this area.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

●	Dark 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

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
Land and Buildings – Council Housing - £224.1m	The Council owns 4,014 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council engaged the Valuation Office Agency (VOA) District Valuer to complete the valuation of these properties. The year end valuation of Council Housing was £224.1 m in the draft accounts, a net increase of £19.4m from the 2020/21 balance of £204.7 million.	The total housing stock was revalued as at 31 March 2022 • We have engaged our own valuer to assist with our work and challenge in this area. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • The housing stock has been divided using the external valuer's judgements and knowledge by applying the beacon methodology. This approach is consistent with the prior year. • We have considered the indices that the valuer has used in performing the valuation and are in the process of discussing the appropriateness of these with the Council and its valuer. • We have considered the completeness and accuracy of the underlying information used to determine the estimate. **Our work in this area is complete. We identified no findings from our work in this regard.**	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

● Dark 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

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability – £536.5m</td>
<td>The Council's net pension liability at 31 March 2022 is £536.5m (PY £531.8m), comprising the Shropshire County Council Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.

The draft financial statements were prepared using, at the time, the latest full actuarial valuation, 2019.

The latest triennial valuation for Shropshire Pension Fund has recently been published. This valuation, which is at 31 March 2022, provides updated information for the net pension liability on the Council's balance sheet, particularly in respect of membership data and demographic assumptions.

As a result, we requested that management obtain a revised report from their actuary, detailing what impact this updated information had on its net pension liability disclosures at 31 March 2022.</td>
<td>

We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.
We have used the work of PwC, as auditors' expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Shropshire County Council Pension Fund valuation as it applies to Shropshire Council.

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.80%</td><td>2.6%-2.9%</td><td>● (G)</td></tr>
<tr><td>Pension increase rate</td><td>3.40%</td><td>3.2% to 5.2%
(0.5% to 2.5% above CPI of 2.7%)
scheme specific</td><td>● (G)</td></tr>
<tr><td>Salary growth</td><td>4.55%</td><td>3.2% to 5.2%</td><td>● (G)</td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>45: 23.4
65: 22.1</td><td>22.4 - 24.3
21.0 – 22.6</td><td>● (G)</td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>45: 26.2
65: 24.4</td><td>25.3 -26.6
23.5 – 24.7</td><td>● (G)</td></tr>
</table>

No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
We are content with the adequacy of the disclosure of the estimate in the financial statements.

</td>
<td>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</td>
</tr>
</table>

Assessment

- ● Dark 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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £9.3m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance and the Council's policy for the calculation of MRP is set out in its annual budget setting report presented to Council. The year-end MRP charge was £9.339m, a net increase of £1.027m from 2020/21. The Council calculates MRP on capital expenditure using the Annuity basis., as allowed under the relevant guidance. For unsupported borrowing MRP is calculated based on an annuity basis over the expected life of the asset for which the borrowing was undertaken. Management consider this to be a prudent approach as it takes into account the materiality of each asset and its remaining useful life.	Benchmarking the Council's MRP as a percentage of its closing Capital Financing Requirement shows that in 2021/22 the Council's contribution represented 1.94%, a reduction from 1.74% in 2020/21. We are assessing this estimate, considering: • whether the MRP has been calculated in line with the statutory guidance • whether the Council's policy on MRP complies with statutory guidance. • whether any changes to the authority's policy on MRP have been discussed and agreed with those charged with governance and have been approved by full council • the reasonableness of the increase in MRP charge *The Council's accounting policy 1.16 states 'Where the Council has made capital loans to third parties financed from the Council's balances, the annual repayments of principal amounts are treated as capital receipts and set aside in the Capital Adjustment Account in place of a revenue MRP charge.'* Government consulted (February 2022) on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans. Government has not yet issued a full response to the consultation. It is therefore our view that this is not in accordance with the current capital finance regulations but is reflected in proposed changes that are currently being consulted upon. As capital loans to third parties total £20m as at 31 March 2022 we are satisfied this would not have a material impact on the MRP charged. A recommendation has been included within Appendix A. **Our work in this area is complete. We identified no findings from our work in this regard.**	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

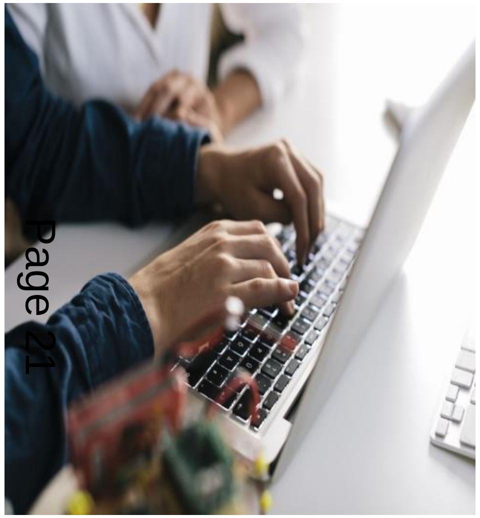
- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider 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.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period other than those identified by the Counter Fraud Service, 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 Council, which is appended at Appendix E. We have requested specific representations in respect of the Group and the Council's Equal Pay arrangements.
Confirmation requests from third parties	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. We have received all requests for information.
Accounting practices	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: see Appendix C for the most significant amendments made to disclosures. In addition, a small number of amendments were made to improve clarity for the reader.

2. Financial Statements - other communication requirements



Issue	Commentary
Audit evidence and explanations/ significant difficulties	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.
Group accounts	The financial statements include group accounts which report the consolidated position for the Council's subsidiaries and entities where it has significant control or influence. This includes Shropshire Town and Rural Housing Limited (STaR), the West Mercia Energy, West Mercia Energy (Pension) , Cornovii Developments Limited, IP & E Limited and SSC number 1 Limited. Our analytical review of the other group entities and consideration of the group consolidation is now complete. We have identified one unadjusted misstatement in relation to Cornovii developments Limited. At the time the Council's financial statements were prepared, only draft accounts of Cornovii were available for consolidation purposes. Cornovii's final accounts were signed in November 2022 and values within these statements were different to the draft version used by the Council. The Council's group 'adjustments between Group Accounts and Authority Accounts un the Group Movement in Reserves Statement' has been presented as a primary statement within the draft accounts. It is not a primary statement and as such the Council has moved this to a note within the group financial statements. There are no other points to report.

2. Financial Statements - other communication requirements

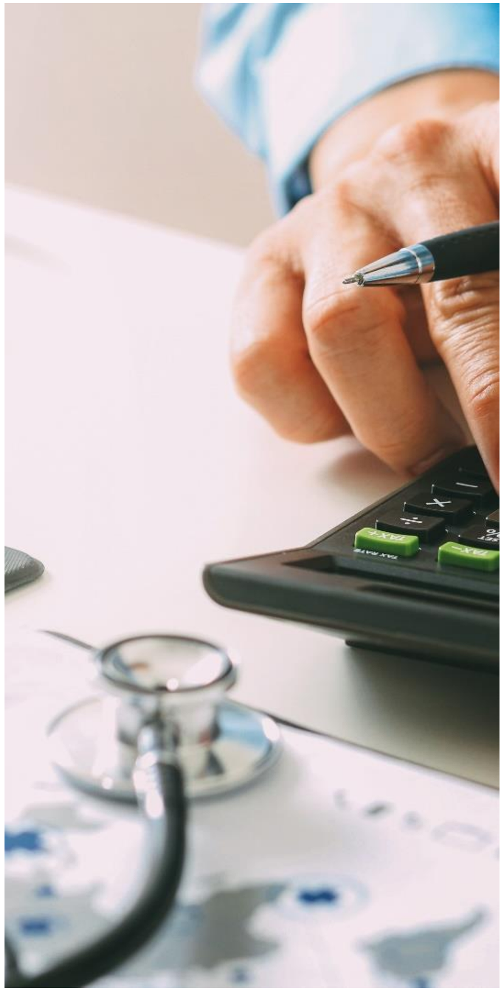
Our responsibility

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).

Issue	Commentary
Going concern	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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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. 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: • 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. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • 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	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. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect .
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • 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. We currently have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. The Council does not exceed the specified group reporting threshold of £2 billion and as such detailed procedures are not required.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Shropshire Council in the audit report, pending completion of the WGA work, work on the remaining objection received from a taxpayer and issuance of our Auditor's Annual Report.



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, in addition to those we have already drawn to your attention in our Audit Plan.

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)

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 date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

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

Audit-related service	**Fees £**	**Threats identified**	**Safeguards**
2021/22 Certification of Housing capital receipts grant 2022/23 Certification of Housing capital receipts grant	£7,500* (complete , not billed) £10,000 (expected)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is anticipated to be £7,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
2020/21 Certification of Teachers Pension Return 2021/22 Certification of Teachers Pension Return 2022/23 Certification of Teachers Pension Return	£5,400 (complete and billed) £7,500* (complete and billed) £10,000 (in progress)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
2020/21 -Certification of Housing Benefit Claim 2021/22 Certification of Housing Benefit Claim 2022/23 Certification of Housing Benefit Claim	£22,200 (Complete and billed) £28,500* (complete, to bill) £25,700 (in progress)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is anticipated to be £25,700 (based on prior year volume of testing) in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

* £43,500 relating to 2021/22 audit year

3. Independence and ethics

Audit and non-audit services – continued

Audit-related service	Fees £	Threats identified	Safeguards
Homes England 2021/22	£5,500	Self-Interest	This is potentially a recurring fee and therefore high self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work of £5,500 in comparison to the total fee for the audit and in particular to GTUK's turnover overall. The work is on audit related services. 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. This is potentially a recurring fee and therefore high self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work of £5,500 in comparison to the total fee for the audit and in particular to GTUK's turnover overall. The work is on audit related services. 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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified seven recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management. Due to the timing of the recommendations raised we will report on progress on these recommendations during the course of the 2023/24 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
Medium ●	R1, Engagement of Experts 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. 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. Without a formal engagement process the council is exposed to work being carried out which is not in line with their expectations, at timescales agreeds and to the quality standards expected.	The Council should ensure the engagement process with new suppliers involved with the asset valuation process are formalised. **Management response** A formal engagement process is now followed for all new suppliers involved with the asset valuation process.
Medium ●	R2 Number of management experts(recommendation relevant to 21/22 and 22/23 audit) The Council now engages with four valuation experts in relation to its asset portfolio, five including the 2021/22 CAD expert , although it is appreciated this is not a regular appointment. When compared to similar organisations , it is unusual for four experts to be involved in the valuation of Property, Plant and Equipment	The Council should review these arrangements annually to ensure all engagements remain appropriate and necessary. **Management response** All arrangements have been reviewed and it is considered appropriate to have different experts involved, due to the subject matter of the asset valuations and to ensure no conflicts of interest.

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
Medium ●	**R3, Final accounts closedown (recommendation relevant to 21/22 and 22/23 audit)** 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. The are departments however where there has been a lack of engagement in the 2021/22 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. We are working with the Council's finance team to progress these issues as quickly as possible.	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. **Management response** All departments involved in the audit process have been notified of likely timescales and the expectations for information and queries that they will be involved in within the 2022/23 audit planning process..
Medium ●	**R4, West Mercia Energy (WME)** As part of group accounting arrangements the Council accounts for WME as a Joint Venture – meaning the council accounts for its share of WME balances (23.9% for 21/22) . We have queried WME's Business Model with the Council in terms of whether they enter into futures contracts for energy supply which may give rise to forms of derivatives (and associated assets/liabilities that may need disclosure.) The Council has responded that this is not the case and that they 'adopt a pay as you go model for energy purchased' . We are aware WME have made changes to its purchasing arrangements from April 2022.	The Council should review what the change in purchasing arrangements means for them in terms of risk exposure and potential further accounting disclosures, particularly given recent volatility in the energy markets. **Management response** We will ensure that we will discuss any changes to purchasing arrangements and how this may impact on the accounts with WME.

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
Medium ●	R5, Asset capitalisation (recommendation relevant to 21/22 and 22/23 audit) Our testing of PP&E additions and review of information in both the 21/22 and 22/23 financial years has identified items of capital expenditure capitalised in the wrong accounting period.	The Council should review its year end process in relation to capital accruals to ensure assets are capitalised in the correct financial year. **Management response** This process has been reviewed in the 2022/23 closedown procedures to ensure that assets are capitalised in the correct financial year.
Medium ●	R6, Council Tax (CT) and Non-Domestic Rates (NDR) reports As part of this analytical procedure we are required to test a sample of discounts and reliefs across the CT and NDR systems. The Council provided detailed reports to select sample items however the report was not as at 31 March 2022. As such they did not agree to values within the financial statements.	The Council should ensure all necessary reports to support the financial statements are ran at the year end date **Management response** This will be actioned in future years.
Medium ●	R7, MRP policy (recommendation relevant to 21/22 and 22/23 audit) *The Council's accounting policy 1.16 states 'Where the Council has made capital loans to third parties financed from the Council's balances, the annual repayments of principal amounts are treated as capital receipts and set aside in the Capital Adjustment Account in place of a revenue MRP charge.'* It is our view that this is not in accordance with the current capital finance regulations but is reflected in proposed changes that are currently being consulted upon. As capital loans to third parties total £20m as at 31 March 2022 we are satisfied this would not have a material impact on the MRP charged.	The Council should keep its MRP policy under review and ensure it is charged in accordance with the Capital Finance Regulations. **Management response** The Council will review the MRP policy to ensure it is in line with current capital finance regulations. The MRP resulting from the change is not material.

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 2019/20 and 2020/21 financial statements, which resulted in 7 recommendations being reported in our 2020/21 Audit Findings report.

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

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Low value assets (First reported in 2020/21) 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. Through discussions with the Council these are assets with a value of below £50,000. 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.	The Council should review its arrangements to monitor de-minimis assets and ensure an appropriate accounting policy is included within the financial statements. Management response 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
x	Delivery of savings plans (First reported in 2019/20) 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. 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.	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. Management response – October 2021 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. **Management response- November 2023** Management will provide a full response to be included in the final version of the Auditors Annual Report, however it should be noted that the Medium Term Financial Strategy for 2023/24 – 2027/28 addressed this issue and agreed spending reductions that would deliver a more sustainable budget for the Council in the future.

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
✓	Inadequate control over privileged accounts within Active Directory and Altair (First reported in 2020/21 and remains applicable for 2021/22) 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). Risk: 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. 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. The excessive use of accounts with privileged access increases the risk of end-users being able to • 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. 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.	**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. 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. A further review or workstation and domain administrative roles within AD will be carried out as part of our PSN re-certification work. 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. 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. **Management response November 2023** The Altair Pensions system has now migrated to a cloud provided service. Active directory Corporate elevated privilege accounts are regularly reviewed. The Council is undertaking a review of the SML process as well as work to ensure system administrators review the controls on key systems.

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
✓	No Current PSN Certification and No current Network diagram available (First reported in 2020/21) 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. Risk 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.	**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. **Management Comments as of 2022** – The council has a current valid certificate. Remediated. **GT Comments** – As part of our 22/23 audit planning we have confirmed this recommendation is now closed.
✓	Evidence requested but not provided – Leaver's process. (First reported in 2020/21 and remains applicable to 2021/22) 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. Risk: There is a risk that key aspects of the design and development process including functional design and testing may not be appropriate. Furthermore, the control may not consistently operate if testing is not complete.	**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. 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. 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 . **Management Comments as of 2022** – This is forming part of the Target Operating Model projects currently in development. Remediation in progress. **GT Comments** – As part of our 2022/23 audit planning we have confirmed this recommendation is now closed.

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
✓	Lack of review of the third-party IT assurance reporting for the ERP system (First reported in 2020/21 and remains applicable to 2021/22) 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 Risk While an independent service organisation assurance report SOC 1 is available, Shropshire Council has not assessed the IT control findings. 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.	**Management Comments as of 2021** - As we move more towards cloud-based systems, we recognize the need for improved processes in this area. 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. 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. **Management Comments as of 2022** – SOC reports currently out for review with ICT Security Specialist, ICT Infrastructure Specialist, Principal Auditor IT. Remediation in progress. **GT Comments** – As part of our 2022/23 audit planning we have confirmed this recommendation is now closed.
✓	Lack of review of the third-party IT assurance reporting for the Altair system. (First reported in 2020/21) 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. 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. Risk 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.	**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. **Management Comments as of 2022** – This was closed in October 2022. Remediated. **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. **GT Comments** – As part of our 2022/23 audit planning we have confirmed this recommendation is now closed.

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 unadjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	**Comprehensive Income and Expenditure Statement**	**Statement of Financial Position**	**Impact on total net expenditure**	**Reason for not adjusting**
Cornovii Developments Limited- financial statements (impact Group only) Cornovii Developments Limited is a wholly owned subsidiary of the Council, as such the accounts of Cornovii are consolidated on a line by line basis into the Council's Group Accounts. At the time the Council's financial statements were prepared, only draft accounts of Cornovii were available for consolidation purposes. Cornovii's final accounts were signed in November 2022 and values within these statements were different to the draft version used by the Council. These include the following non trivial differences :				**Management comment** The change was not material and so it was planned that this would be reflected in-year in the 2022/23 Statement of Accounts
• Debtors £881k lower in final accounts compared to draft		(£0.8m)		
• Cash and bank balances £1.4m lower in final accounts compared to draft		£1.4m		
• Creditors £844k higher in final accounts compared to draft		(£0.8m)		
• Profit and loss £200k lower in final accounts compared to draft	£0.2m			
Property, plant and additions (Impact single entity and Group) Assets additions capitalised in 22/23 which relate to 21/22 financial year				**Management comment** This would affect multiple statements and notes if this was processed, therefore agreed as this is not material, this would not be changed.
• PPE additions		£1.021m		
• Capital accruals		(£1.021m)		
Overall impact - Group financial statements	£0.2m	£0.2m	£0.2m	
Overall impact – Single entity financial statements	0	0	0	

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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure
<u>Infrastructure adjustment following adoption of the 25th December 2022 Statutory Instrument. (Impact single entity and group)</u> Following the issue of the SI in December 2022 and clarity of actions required by local authorities the Council adjusted its financial statements based on this guidance. The impact of this for the 21/22 financial statements is that PPE balances are now £148m higher than the draft financial statements presented for audit in July 2022. Updated versions of the 2021/22 financial statements, including the Councils full adoption of the SI were reported by management to the Audit Committee in February 2023. The following adjustments have been made in the financial statements	0	Increase PPE by £148m Increase Capital adjustment account by £148m	0
<u>Pensions adjustments following 2022 triennial valuation (impact single entity and group)</u> The Council is an admitted body to Shropshire Pension Fund. The latest triennial valuation for Shropshire Pension Fund has recently been published. This valuation, which is at 31 March 2022, provides updated information for the net pension liability on the Council's balance sheet, particularly in respect of membership data and demographic assumptions.	Increase in remeasurement of Net defined Benefit Liability of £29.1m	Increase in pension fund net liability (£29.1m)	Increase in net expenditure of £29.1m
There is a net nil impact on the general fund in respect of this adjustment due to statutory adjustments the Council is required to make			0
Overall impact	£29.1m	£29.1m	£29.1m

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?	Reason for non adjustment
General A small number of other minor amendments were made to correct typing errors, page numbering and incorporate additional narrative information. We do not deem these significant enough to bring to the attention of those charged with governance. A number of disclosure amendments were adjusted as part of the 20/21 audit which also apply to the 21/22 audit. We are satisfied the council has amended accordingly	Update typographical errors.	Yes	N/A
Prior Period adjustment disclosures 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.	In accordance with IAS 8 revised disclosures are required in relation to changes made to the comparatives.	Yes	N/A
Narrative Report 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. The Council's Narrative report does not currently include this disclosure.	The Council should review and update its narrative report disclosures to ensure compliant with CIPFA code	No	**Management response** Refer to Group Accounts but probably need more information to be included. Will perform a full review of the requirements of the Code for the Narrative Report in future years.
Housing Revenue Account 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	Amend HRA disclosures to rounded 000's	Yes	N/A
Financial instruments – fair value measurement The Council's fair value measurement in relation to PFI liabilities is based on a discount rate using premature repayment rates. This is not in accordance with IFRS 13.	The Council should restate the fair value of its PFI liabilities using appropriate rate	Yes	N/A

C. Audit Adjustments

Misclassification and disclosure changes - continued

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?	Reason for non adjustment
Contingent Liability – Enhanced disclosures regarding RAAC. This is a recent, national issue impacting the audit.	Contingent liability note to be enhanced to cover RAAC situation at the council	Yes	N/A
The Council's group 'adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement' has incorrectly been presented as a primary statement within the draft accounts.	The Council should move this disclosure to a note within the group financial statements rather than showing as part of primary statements.	Yes	N/A
Audit Fee disclosure not in line those stated in the Audit Plan.	The Council should amend note 37 to include £167k fees payable to external audit services carried out by the appointed auditor rather than £175k. Fees payable to external audit for the certification of grant claims and returns should be changed to £40k and the row below for other services totalling £9k removed.	TBC – notified 15th November . presentation adjustment only	

C. Audit Adjustments

Impact of unadjusted misstatements - prior year

There were 2 unadjusted misstatements reported in the 2020/21 Audit Findings Report presented to this Committee in July 2023. 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.

Both amendments have been made within the 2021/22 financial statements.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure £'000	Reason for not adjusting	2021/22 impact
Property, Plant and Equipment - (Gross Internal Areas) – understatement of PPE	-	£4.5m	-	N/A – it is not expected the council amends its financial statements for an extrapolated misstatement.	The Council has carried our a review and update of GIA information as at 31 March 2022
Revaluation reserve	-	-£4.5m	-		
Property, Plant and Equipment - (Shrewsbury Sports Village) Understatement of PPE	-	£1.2m	-	Immaterial. Adjustment made in 2021/22 financial statements	Sports village valuation adjustments processed within financial statements as at 31 March 2022.
Revaluation reserve	-	-£1.2m	-		

D. Fees

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

Audit fees	**Proposed fee**	**Final fee**
Council Audit	£167,061*	TBC
Audit of subsidiary company - Shropshire Towns and Rural (STaR) Housing Ltd	£27,500	£27,500
Total audit fees (excluding VAT)	£194,561	TBC

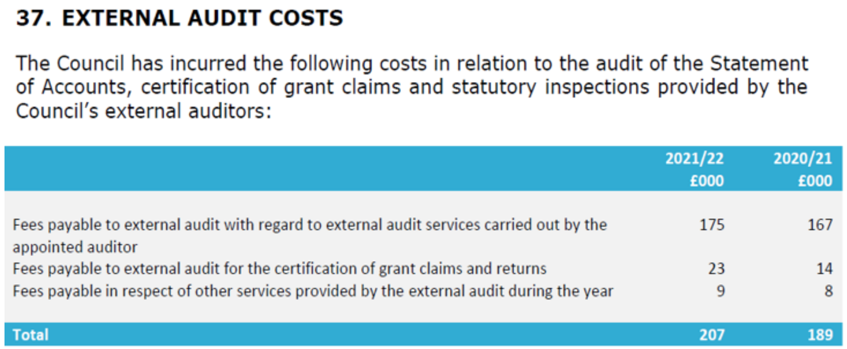
* See overleaf for a breakdown of the fee. This information was provided in our Audit Plan but is reproduced overleaf for completeness.

Non-audit fees for other services	**Fees**
Audit Related Services:	
• Housing capital receipts **	£7,500
• Teachers Pension Return	£7,500
• Housing Benefit Subsidy Claim	£28,500
Total non-audit fees (excluding VAT)	**£43,500**

** These are proposed fees as the work in respect of these grant claims is incomplete. Therefore we are not in a position to confirm final fees as at the time of writing.

A reconciliation of the Council's External Audit Costs Note 37 of the accounts to fees above is as follows.

Council Audit fees (as above)	£167k
Total non-audit fees for other services (as above)	£43k
Audit related fee variance relating to final fee agreed on Pooling claim	(£3k)
Total external audit costs as reported in note 37	**£207k**



37. 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

We are satisfied that statutory fees as well as non-audit fees for other services as set out in this report, reconciles to the financial statements note 37 in total. A presentation adjustment is required between audit services and other services.

D. Fees – detailed analysis (per 2021/22 audit plan)

Scale fee published by PSAA		£103,061
Ongoing increases to scale fee first identified in 2019/20		
Raising the bar/regulatory factors including materiality change	£5,000	
Enhanced audit procedures for Property, Plant and Equipment	£4,500	
Property, Plant and Equipment: appointment of auditor's expert	£5,000	
Enhanced audit procedures for Pensions	£3,500	
Other complex issues and expert advice	£3,000	
Recurring element of 2019/20 fee		**£21,000**
New issues for 2020/21		
Additional work on Value for Money (VfM) under new NAO Code	£26,000	£26,000
Increased audit requirements of revised ISAs	£17,000	£17,000
Proposed increase to agreed recurring 2019/20 fee		£43,000
Total audit fees (excluding VAT)		**£167,061**

E. Management Letter of Representation

Date – To be confirmed

Dear Grant Thornton

Shropshire Council
Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Shropshire Council and its subsidiary undertakings, Shropshire Towns and Rural Housing Limited, SSC 1 Limited and Cornovii Developments Limited for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the group and Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. The prior period adjustments disclosed in Note 2 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention

viii. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

ix. Except as disclosed in the group and Council financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the group and Council has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

x. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

xi. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

E. Management Letter of Representation (continued)

xii. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xiii. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council. The financial statements are free of material misstatements, including omissions.

xiv. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xv. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xvi. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

xvii. We have considered whether the Council is required to reflect a liability in respect of equal pay claims within its financial statements. We confirm that we are satisfied that no liability needs to be recognised on the grounds that:

a. In October 2018, Shropshire Council returned to National Joint Council (NJC) rates of pay for Local Government's Job Evaluation Scheme which ensures that work of equal value is allocated to the same salary banding, progression within which is determined by performance. The scheme is regularly updated to comply with equal pay legislation.

b. We do not have 'task and finish' working arrangements in place. All staff at the council are employed on either annualised hours or work to a specified rota appropriate to the service area.

c. The Council's Pay Policy Statement determines its approach to pay and the Remuneration Committee ensures the provisions set out in the statement are applied consistently throughout the Council.

Information Provided

xviii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements,from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

E. Management Letter of Representation (continued)

xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

  a. management;

  b. employees who have significant roles in internal control; or

  c. others where the fraud could have a material effect on the financial statements.

xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council’s Audit Committee at its meeting on 23rd November 2023.

Yours faithfully

Name……………………………

Position…………………………..

Date…………………………….

Name……………………………

Position…………………………..

Date…………………………….

Signed on behalf of the Council

F. Audit letter in respect of delayed VFM work

Note that this letter does not form part of our formal communications under ISA 260 (Communication with Those Charged with Governance) but is included here for ease of reference.

Audit Committee Chair
Shropshire Council

Dear Councillor Williams, Chair of Audit Committee as TCWG,

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their 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 30 September 2023.

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

Yours faithfully

Grant Patterson

Director and Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Grant Thornton

grantthornton.co.uk