Public Document Pack

Date: Friday, 20 December 2024

Time: 10.00 am

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

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AUDIT COMMITTEE

TO FOLLOW REPORT (S)

6 Third line assurance: External Audit: Shropshire Council Audit Findings 2023/24 (Pages 1 - 62)

The report of the Engagement Lead is to follow.
Contact: Avtar S Sohal (0121) 232 6420

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The Interim Audit Findings (ISA260) Report for Shropshire Council

Year ended 31 March 2024

Written: 11 December 2024

Committee date: 20 December 2024

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Agenda Item 6

Private and Confidential

Dear Cllr Williams

Audit Findings for Shropshire Council for the 31 March 2024

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to drive audit quality by reference to the Audit Quality Framework. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at transparency-report-2023.pdf (grantthornton.co.uk).

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

Avtar Sohal

Director
For Grant Thornton UK LLP

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the 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 2024 for the attention of 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), Narrative Report and Pension Fund Financial Statements), is materially consistent with the financial statements and with our knowledge obtained during the audit, or otherwise whether this information appears to be materially misstated.

Our audit work started in August 2024, substantial progress has been made however, there is outstanding information which is required in order for us to complete all necessary audit procedures and conclude the financial statements audit for 2023/24. A high-level summary of information required is included on page 8.

Our findings to date are summarised on pages 7 to 26.

Audit adjustments identified to date are detailed at Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out at Appendix B. Our follow up of recommendations from the prior year's audit are detailed at Appendix C.

One change has been made to our planned audit procedures since the issue of the Audit Plan. Additional audit procedures have been conducted concerning the group financial statements, with a specific focus on Cornovii Developments Limited (CDL) inventory balance, a material balance within the group financial statements valued at £32 million. This change to group scoping is summarised on page 10.

We have no reporting in relation to our other statutory duties.

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

Subject to the conclusion of all necessary audit procedures, our anticipated financial statements audit report opinion will be unmodified.

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 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

Our work on the Council's value for money (VFM) arrangements has been reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). This was presented to 28^{th} November 2024 Audit Committee. We identified significant weaknesses in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The significant weaknesses relate to the following

- Council's arrangements for securing financial sustainability into the medium term
- Governance and reporting arrangements in relation to the NWRR

Full commentary is included in our Auditor's Annual Report for 2023/24 which was presented to the November 2024 Audit Committee.

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 one Shropshire taxpayer 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 have one objection ongoing from prior financial years and one in relation to the 2023/24 financial year.

Significant matters

We have not encountered any significant matters arising during our audit in terms of the sufficiency or appropriateness of audit evidence provided. We have reported, on page 8 issues in relation to information outstanding at this stage to enable audit completion.

1. Headlines

National context – audit backlog

Government proposals around the backstop

On 30 July 2024, the Minister of State for Local Government and English Devolution, Jim McMahon, provided the following written statement to Parliament [Written statements - Written questions, answers and statements - UK Parliament](#) This confirms the government's intention to introduce a backstop date for English local authority audits up to 2022/23 of 13 December 2024. As a consequence of this, for those authorities accounts not yet audited up to years 2022/23 these are expected to be backstopped and a disclaimer of opinion will be issued by 13 December 2024. This is not applicable for Shropshire Council as opinions on its financial statements for the years up to and including 2022/23 have been issued.

A backstop date for 2023/24 has been proposed of 28 February 2025, and a date for 2024/25 audits of 27 February 2026. Whilst unlikely , there is a risk that if audit procedures cannot be completed in a timely manner that the Councils financial statements for 2023/24 would be subject to the 28 February 2025 backstop.

New National Audit Office Code

As part of ongoing reforms to local audit, the National Audit Office Code has now been approved. One of the objectives is the new Code is to ensure more timely reporting of audit work, including Value for Money. The Code requires that from 2025, auditors will issue their Annual Auditor's Report by November each year. We have already put resource plans in place to ensure we achieve this deadline across all audited bodies.

National context – level of borrowing

All Councils continue to operate in an increasingly challenging financial context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums in excess of their revenue budgets to finance these investment schemes. Additionally, we have also seen some authorities lending money to their subsidiary companies, which may not be in a position to repay those loans.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. The use of borrowings to fund investment properties has not been an issue for Shropshire Council.

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 and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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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;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. Our audit plan determined that no specified audit procedures for any components were required with analytical procedures being sufficient. We have now reviewed this and given the material nature of Cornovii Developments Limited Inventory balance within the 2023/24 financial statements presented for audit (£32m) further audit procedures involving the group Companies external auditor, Azets will be required to gain assurance over this balance. This work is in progress at the date of writing. See page 10 for the updated group audit scope.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

Substantial progress has been made in relation to the audit and subject to outstanding queries being resolved as detailed on page 8, we anticipate issuing an unqualified audit opinion. A draft opinion has been included as a separate agenda item.

Acknowledgements

Throughout the audit process, both your finance team and our audit team encountered challenges, particularly concerning information requests, where the source evidence is located in departments other than central finance or relies on information from external organizations. As a result, there has been a backlog of queries at various stages of the audit, and we have been unable to conclude certain areas of work.

It is important to clarify that we have not encountered any refusal to provide audit evidence or obstruction in our audit procedures.

We understand the significant competing priorities of the Council's finance team and wider staff group at this time. Upon receiving the outstanding information, as summarized on the following page, we will aim to finalize the audit procedures as soon as possible.

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

2. Financial Statements

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

Red	- Receipt and review of responses from the Council's Internal and external valuers regarding valuation inputs and our consideration thereon (relates to PP&E and Investment property valuations) - Receipt of evidence to support PPE existence sample (for example title deeds/land registry documents) - Final manager and engagement lead review of all of the above once completed
Amber	- Receipt and review of the updated financial statements. - Receipt of outstanding evidence within payables sample. - Receipt of outstanding evidence regarding fees and charges sample. - Outstanding query regarding operating expenditure sample item - Completion of our work on pension assurances following receipt of updated IAS 19 report - Review of evidence to support Councils assessment of Going Concern - Receipt of information to support Councils consideration of IFRIC 14 in relation to group companies - Completion of work regarding the Group financial statements following receipt of information from component auditor - Completion of our work on Housing Benefits payments, system parameter modules - Receipt of remaining information to complete our work Council tax and NDR income - Response to queries regarding the Councils impairment of credit losses - Final manager and engagement lead review of the above once completed
Green	- Response to and consideration of queries in relation to Exit packages, Assets under Construction, Receivables, PFI models and MRP - Review of final evidence to support operating expenditure sample. - Completion of our work regarding other notes - Where required, completion of WGA assurance procedures thereon - Obtaining and reviewing the management letter of representation - Updating our subsequent events review, to the date of signing the opinion - Final manager and engagement lead review of the above once completed

Status

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

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan on 17 July 2024.

We set out in this table our determination of materiality for Shropshire Council and Group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£10,000,000	£9,500,000	We determined materiality for the audit of the Council's financial statements as a whole to be £10m (Group) and £9.5m (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	£7,000,000	£6,650,000	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 2022/23 audit in relation to property, plant and equipment. • There were recommendations raised in 2022/23 in relation to the Council's IT environment. • Senior management and key reporting personnel in the finance function has remained stable from the prior year audit On this basis we have maintained the performance materiality threshold at 70% which is consistent with prior year.
Trivial matters	£475,000	£475,000	We determined the threshold at which we will communicate misstatements to the Audit Committee to be £475k.
Materiality for Senior officer remuneration	£8,000	£8,000	In accordance with ISA 320 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. We have determined a lower materiality for senior officer remuneration disclosures (at individual officer level) linked to the total value of the disclosures and applying the same 1.4% benchmark as for the main financial statements.

2. Financial Statements - Group audit scope and risk assessment

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Shropshire Council	Yes	Audit of the financial information of the component using component materiality	See pages 11 to 16 of this report for risks identified.	Full scope audit performed by Grant Thornton UK LLP
Shropshire Towns and Rural (STaR) Housing Ltd	No	Analytical procedures at group level	None identified	Analytical review performed by Grant Thornton UK LLP.
West Mercia Energy	No	Analytical procedures at group level	None identified	Analytical review performed by Grant Thornton UK LLP.
Cornovii Developments Limited	No	Audit of one or more classes of transactions or account balances	None identified	Review of Inventory testing performed by the component auditor.
IP &E Limited	No	Analytical procedures at group level	None identified	Analytical review performed by Grant Thornton UK LLP.
West Mercia Supplies (Pensions)	No	Analytical procedures at group level	None identified	Analytical review performed by Grant Thornton UK LLP.

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Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

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
Presumed risk of fraud in revenue recognition (Risk relates to Group and Council) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Shropshire Council and its subsidiaries 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: <u>Accounting policies and systems</u> • 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 <u>Fees, charges and other service income</u> • agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. <u>Taxation, non-specific grant income and other grants</u> • 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. • 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 relation to fees, charges and service income is not yet complete. A summary of outstanding information is included on page 8 of this report.**

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Risk of fraud related to expenditure recognition PAF Practice Note 10 (Risk relates to Group and Council) 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 misstatement due to fraud related to revenue recognition. Having considered the nature of the expenditure of the expenditure streams of Shropshire Council, and on the same basis as 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. As part of our substantive testing of operating expenditure to date we have identified one item of expenditure accounted for in 2023/24 which related to earlier financial year. This error has been extrapolated and from this we project the 2023/24 operating expenditure balance is overstated by £560k. We have one query outstanding in relation to operating expenditure as detailed on page 8 as such our work in this area is not complete.
Management over-ride of controls (Risk relates to Group and Council) 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 of material misstatement.	We have: • evaluated the design and implementation 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 and • evaluated the rationale for any changes in estimates and unusual transactions. From the sample testing of journals undertaken to date 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 our IT audit specialists from their review of the Council's IT general controls. This year 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 Recommendations, have been made in relation to the IT review – these can be found in Appendix B **Our work in this area is complete. We have no issues to report in this regard.**

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of other land and buildings (Risk relates to Council only)

(£431.4m per 2023/24 draft financial statements)

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 5 years and are subject to an annual desktop review, in year where a full valuation is not undertaken.

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

We will focus our audit attention on those assets that have large/unusual changes in valuation or approaches to valuation, including key inputs, has changed. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment of land and buildings in our Audit Findings Report.

Commentary

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

Findings

Our work in this area is not complete. A summary of outstanding information is included on page 8 of this report.

We are working alongside the Council and the Council's Internal and External valuer to progress the remaining work. At this stage we are not in a position to be able to report what, if any, impact there is on the valuation of Other Land and Buildings or any recommendations resulting from this work.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Investment Property (Risk relates to Council only) (£43m per 2023/24 draft financial statements) The Council carries out a rolling programme that ensures that all Investment Properties required to be measured at current value is revalued at least every 5 years and are subject to an annual desktop review, in year where a full valuation is not undertaken. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We will focus our audit attention on those assets that have large/unusual changes in valuation or approaches to valuation, including key inputs, has changed. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment of land and buildings in our Audit Findings Report.	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 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 Findings Our work in this area is not complete. A summary of outstanding information is included on page 8 of this report. We are working alongside the Council and the Council's Internal and External valuer to progress the remaining work. At this stage we are not in a position to be able to report what, if any, impact there is on the valuation Investment property or any recommendations coming from this work.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of the pension fund net liability (Risk relates to Group and Council)

(£21.397m per 2023/24 draft financial statements)

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

The Council's pension fund net liability is considered a significant estimate due to the size of the numbers involved (£21m per draft financial statements) 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 therefore identified valuation of the pension fund net asset/liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

Commentary

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
- sought assurances from the auditor of Shropshire County Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data send to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Findings

The Councils IAS 19 report included an investment rate of return based on actual rate of return for 11 months (to February 2024) and an estimated rate of return for one month (March 2024). This produced an annual estimated rate of 13.72% which was used in the Councils IAS 19 report. The actual rate of return for the year is 12.34%. The Council have obtained an updated IAS 19 report using the actual investment rate of return of 12.34%. This updated report has identified, that should the actual rate of return be used in the IAS19 report, pension assets would be £17.2m lower than those reported in the draft financial statements.

The Pension Fund Auditor (PFA) reported an unadjusted misstatement of £12.697m relating to estimation difference identified in the valuation of Investments. The investments were understated, and the proportion relating to the Council is approximately £5.672m. Given the PFA has reported that this difference identified was due to more up to date information being available at the time of audit, we are satisfied that the value of assets used were appropriate at the time of the preparation of the IAS 19 report. This is reported as an unadjusted misstatement in Appendix D.

Our work in relation to the Councils Pension fund net liability is not yet complete. A summary of outstanding information is included on page 8 of this report.

2. Financial Statements: Other risks

Risks identified in our Audit Plan	Commentary
Operating Expenses (Risk relates to Council only) 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. Management also undertake an assessment of the levels of grant income received in the financial year to be deferred to future years based on the specific terms and conditions of funding. We therefore identify 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 not complete. A summary of outstanding information is included on page 8 of this report.
Completeness, existence and accuracy of cash and cash equivalents (Risk relates to Council only) The receipt and payment of cash represents a significant class of transactions occurring throughout the year, culminating in the year-end balance for cash and cash equivalents reported on the statement of financial position. Due to the significance of cash transactions to the Council, we identified the completeness, existence and accuracy of cash and cash equivalents as a risk requiring special audit consideration.	The receipt and payment of cash represents a significant class of transactions occurring throughout the year, culminating in the year-end balance for cash and cash equivalents reported on the statement of financial position. Due to the significance of cash transactions to the Council, we identified the completeness, existence and accuracy of cash and cash equivalents as a risk which required special audit consideration. Our work in this area is well progressed. We have a small number of queries outstanding.

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 (£431.4m per 2023/24 draft financial statements)	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 a number of valuers, including its in-house property team to complete the valuation of properties as at 31 March 2024. 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 however we not the Council has utilised its own internal team for the valuation of some assets within the Council's portfolio. • We have considered the movements in the valuations of individual assets and their consistency with published indices. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging gross internal areas. Our work in this area is not complete. A summary of outstanding information is included on page 8 of this report.	TBC

Page 17

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] 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
- [Green] 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
Investment Property Valuation – (£43m per 2023/24 draft financial statements)	Investment properties are initially measured at cost and thereafter at fair value, which is interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value (MV). Investment properties held at fair value are not depreciated. The fair value of investment properties reflect market conditions at the Balance Sheet date; this means the periodic (5-yearly) revaluation approach may only be used where the carrying amount does not differ materially from that which would be determined using fair value at Balance Sheet date. As such the Council carries out an annual review to ensure their valuation reflects fair value at the balance sheet date.	• 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 published indices. 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 in this area is not complete. A summary of outstanding information is included on page 8 of this report.	TBC

Page 18

Assessment

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Dwellings (£244.1 m per 2023/24 draft financial statements)	The Council owns 4,036 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 £244m in the draft accounts, a net increase of £8m from the 2022/23 balance of £236m.	The total housing stock was revalued as at 31 March 2024 • 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 not complete. A summary of outstanding information is included on page 8 of this report.	TBC

Page 19

Assessment

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – **(£21.397m per 2023/24 draft financial statements)**	The Council's net pension liability at 31 March 2024 is £21.397m (PY £117.3m) per draft accounts, 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.	• 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.	TBC

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.90%	4.7%-4.9%	● (G)
Pension increase rate (CPI)	2.80%	2.6% to 2.80% for all employers	● (G)
Salary growth	3.95%	3.2% to 5.25% (1.25% p.a. to 1.50% p.a. above CPI.)	● (G)
Life expectancy – Males currently aged 45 / 65	45: 23.1 65: 21.8	22- 23.5 20.7– 22.2	● (G)
Life expectancy – Females currently aged 45 / 65	45: 26 65: 24.2	25-26.2 23.2– 24.4	● (G)

- 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.

Our work has identified misstatements as detailed on page 15.

Our work in this area is not complete. A summary of outstanding information is included on page 8 of this report.

Assessment

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £8.9m per draft accounts, £9.6m per amended accounts.	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 £13.7m per draft accounts. (prior year £9.6m). 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 2023/24 the Council's contribution represented 2.49%, an increase from 1.9% in 2022/23. We assess 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.'* Following consultation MHCLG have clarified and updated the regulations and the statutory guidance for minimum revenue provision. Although these take full effect from April 2025 , the consultation highlighted that the intention was not to change policy, but to clearly set out in legislation the practices that authorities should already be following. This guidance clarifies 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 from the calculation unless exempted by statute. 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 therefore that the Council's current policy is not in accordance with the Statutory guidance due to take effect from April 2025. This has been reported in prior years and is included as recommendation from prior year in appendix C.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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Assessment

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- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks
Unit 4 – ERP (Financial reporting and payment system)	Detailed ITGC assessment (design effectiveness only)	🟢	🟢	🟢	🟢	Management override of controls (journals), Valuation of PPE and investment property assets and valuation of Pension liability.
Active Directory	Detailed ITGC assessment (design effectiveness only)	🟡	🟡	⚫	⚫	Management override of controls (journals), Valuation of PPE and investment property assets and valuation of Pension liability.

Assessment

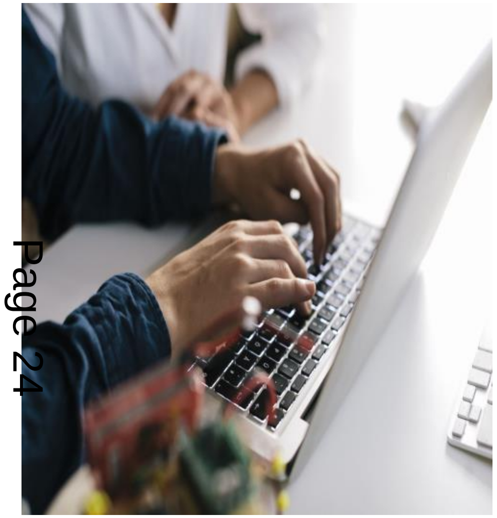
- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

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 other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We have identified a misstatement regarding related party disclosures, in particular, relating to debtor balances with Cornovii Developments Limited. This is reported within Appendix D. We are not aware of any additional 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, including specific representations in respect of the Group and the Council's arrangements in respect of Equal Pay , which is set out at Appendix F .
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 Supplies (Pension) , Cornovii Developments Limited, IP & E Limited and SSC number 1 Limited. Our audit plan reported our evaluation of group arrangements we determined that no specified audit procedures for any components were required with analytical procedures being sufficient. We have now reviewed this and given the material nature of Cornovii Developments Limited Inventory balance (£32m) further audit procedures involving the group Companies external auditor, Azets will be required to gain assurance over this balance. This work is in progress.

2. Financial Statements: other communication requirements



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Issue	Commentary
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 are currently awaiting response to some of our audit requests. Alternative procedures will be carried out where these are not received
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. This work is in progress but to date our review has found no issues to report.
Audit evidence and explanations/ significant difficulties	We continue to engage well with the central finance team and key staff members have been instrumental in supporting the wider audit, especially where requests require the involvement of other departments. Throughout the audit process, both your finance team and our audit team encountered challenges, particularly concerning information requests, where the source evidence is located in departments other than central finance or relies on information from external organizations. As a result, there has been a backlog of queries at various stages of the audit, and we have been unable to conclude certain areas of work. It is important to clarify that we have not encountered any refusal to provide audit evidence or obstruction in our audit procedures. We understand the significant competing priorities of the Council's finance team and wider staff group at this time. Upon receiving the outstanding information, as summarized on page 8, we aim to finalize audit procedures as soon as possible.

2. Financial Statements: other communication requirements

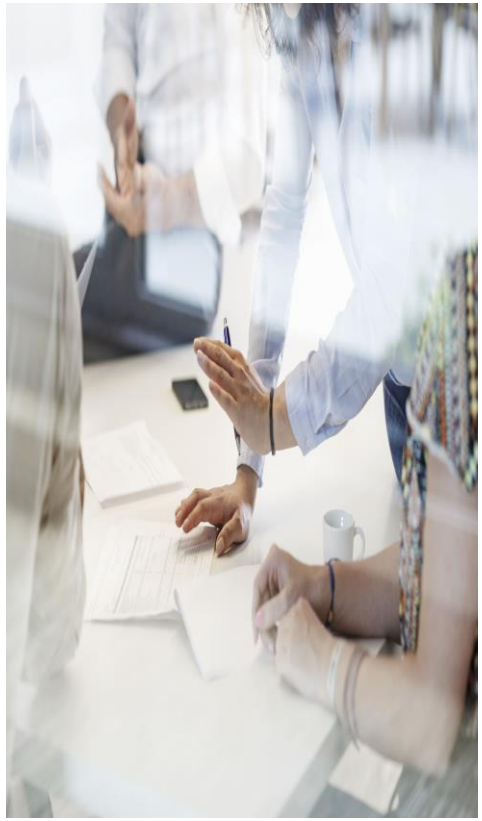
Our responsibility

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. Our work in this area is not yet complete. A summary of outstanding information is included on page 8 of this report.

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, 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. Our work in this area is not yet complete.
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 significant weaknesses. We identified and reported significant weaknesses in the areas of governance and financial sustainability as part of our value for money work, assessing the council's arrangements for securing economy, efficiency and effectiveness in the use of its resources. These are detained in the Auditors Annual report presented to the Audit Committee in November 2024.
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. Note that detailed work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2023/24 audit of Shropshire Council in the audit report, due to a prior year and current year audit objection remaining open.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2023/24

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

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Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

We have completed our VFM work and our detailed commentary is set out in the separate Auditors Annual Report, which was presented to the Audit Committee in November 2024.

4. Independence considerations

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms.
In this context, we disclose the following to you:

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Details of fees charged are detailed in Appendix F.

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 Grant Thornton International Transparency report 2023.

4. Independence considerations

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

4. 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

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Audit-related service	Fees £	Threats identified	Safeguards
2020/21 Certification of Housing capital receipts grant 2021/22 Certification of Housing capital receipts grant 2022/23 Certification of Housing capital receipts grant	£3,000 (complete and billed) £7,500 (complete and billed) £10,000 (complete and billed)	Self-Interest (because this is a recurring fee) Self review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence when compared 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. To mitigate against the management threat, ie acting in the capacity of management, the scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow.
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 (complete and billed)	Self-Interest (because this is a recurring fee) Self Review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence when compared 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. To mitigate against the management threat, ie acting in the capacity of management, the scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow.

4. Independence and ethics

Audit and non-audit services continued

Audit-related service	Fees £	Threats identified	Safeguards
2021/22 Certification of Housing Benefit Claim	£28,500 (complete and billed)	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 when compared 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.
2022/23 Certification of Housing Benefit Claim	£25,700 (complete and billed)	Self Review	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.
2023/2024 Certification of Housing Benefit Claim	£56,540, (estimate)	Management	To mitigate against the management threat, ie acting in the capacity of management, the scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow.

*

4. Independence and ethics

Audit and non-audit services – continued

Audit-related service	Fees £	Threats identified	Safeguards
iXBRL tagging – Service carried out by separate Grant Thornton team for the Council's subsidiary Shropshire Towns and Rural Housing Limited (STaRH) 2023/24	£800	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 £550 in comparison to the total fee for the audit of either Shropshire Council or Shropshire Towns and Rural Housing Limited (STaRH) and, in particular, to GTUK's turnover overall. The work is on audit related service. It is carried out for and billed to STaRH, not the Council. 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 £550 in comparison to the total fee for the audit and in particular to GTUK's turnover overall.

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Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 8 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2024/25 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
●	**IT audit findings - Information on the privileged accounts within the Active Directory were not provided** We were not provided with the accounts under the Active Directory group "AD Admins ". Hence, we could not provide assurance on privilege access and its appropriateness **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.	Findings have already been reported to the Audit Committee.
●	**IT audit findings - cyber security policies and procedures** As part of our IT review we identified reporting points in relation to the councils cyber security policies and procedures.	Findings have already been reported to the Audit Committee.
●	As part of operating expenditure testing one error has been identified to date where an of expenditure has been included within the incorrect financial year as the necessary prepayment has not been accounted for. Whilst we are satisfied this does not result in a material misstatement within the financial statements it is considered poor accounting practice. Costs should be accounted for in the appropriate year. Recommendation - The Trust should review its commitment accounting procedures to ensure expenditure is recorded in the correct financial period.	The Council should review its commitment accounting procedures to ensure expenditure is recorded in the correct financial period.

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**Group arrangements** As a Local Government organisation the Council prepares its accounts under the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. This code sets out the accounting principles, practices, and reporting requirements specifically tailored to the unique financial and operational environment of local government entities. Cornovii Developments Limited , prepares its financial statements under a different regulatory framework. As such, accounting treatments can differ based on relevant regulatory and accounting framework. Group accounting is a complex area. In 23/24 the inventory balance within Cornovii Developments Limited, a wholly owned subsidiary has increased significantly based on the prior year, £32m as at 31st March 2024 compared to £7m in prior year. The Council's narrative reporting and working papers to support group accounting transactions do not demonstrate consideration of the differing accounting treatments or risks the council is exposed to in terms of group accounting transactions.	The Council should: • Review accounting policies in relation to group arrangements and enhance documented consideration of group accounting requirements. • Review narrative reporting in relation to group arrangements. As per CIPFA Code 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. • Demonstrate it has considered wider implications of group accounting for emerging issues, for example IFRIC 14 and its impact on the Group financial statements. **Management response** The Council do consider differing accounting policies when consolidating group accounts to ensure that the accounts are prepared on a consistent basis. We will look to improve our reporting within the Statement of Accounts and working papers to evidence the action that has been taken to review the accounting policies and practices.
Medium	**Year-end reports** In some instances, reports from subsidiary systems to support values within the financial statements do not agree to stated values. Whilst reports could be generated retrospectively with non-material differences there is the risk that if the council does not centrally store all reports relevant which underpin the financial statements that there could be material differences in future periods.	The Council should ensure all year end reports are generated and saved from subsidiary systems and carry out checks to confirm reports support values within the financial statements or underling reconciliations. **Management response** Year end reports are generated from subsidiary systems at year end, however we are unable to run these retrospectively as requested during the audit, as the systems and control totals will move on during the course of the year. We will liaise with audit to ensure that we are aware of all reports that are likely to be requested during the audit, so that we can ensure that these are all extracted at the year end.

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
●	**Internal valuer terms of engagement** The Council has utilised its internal valuations team as 'management expert' for a number of property valuations. The Council does not issue terms of engagement to its internal valuation team. Without formal terms of engagement there can be a gap in expectations and the relative responsibilities of the finance team and property team.	In line with external valuer engagements, the council should formalise its internal arrangements in terms of valuation requirements. Although not exhaustive, as a minimum these should include: • Background and Objectives: A clear description of the background leading to the need for the valuation and the specific objectives that the valuation is intended to achieve. • Scope of Work: A detailed outline of the scope of the valuation work to be performed • Reporting Requirements: Specifications regarding the format, content, and timing of the valuation report, including the intended audience and any regulatory or legal requirements that need to be addressed • Data and Information: Clarity on the access to and availability of the relevant data, documentation, and information necessary for the valuation process, including any limitations or restrictions. • Independence and Impartiality: Confirmation of the valuer's independence, impartiality, and freedom from conflicts of interest, along with any disclosure requirements related to potential conflicts. • Compliance and Standards: Acknowledgment of adherence to relevant professional standards, regulatory requirements, and best practices in the field of valuation. • Communication and Collaboration: Expectations for communication, collaboration, and updates throughout the valuation process, including key points of contact and the process for addressing queries or clarifications. • Fees and Expenses: Agreement on the compensation structure, including internal recharges • Clarity on the expected deliverables, milestones, and the overall timeline for completion of the valuation work. **Management response** Agreed, terms of engagement for internal valuations will be formalised to clarify the requirements for completing valuations, where these are undertaken.

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Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
● Medium	Revenue Expenditure Funded through Capital Under Statute (REFCUS) Although below the trivial limit for reporting within schedule of misstatements, our testing of REFCUS identified one item which did not meet the definition of REFCUS.	The Council should specifically review expenditure allocated as REFCUS to ensure correctly classified. **Management response** The capital team will undertake a review of all items of REFCUS to ensure that all items meet the definition of REFCUS.
● Low	The Council has a high volume of debts which over 10 years old, many of which have 100% provision against them, recognising they are unlikely to be collected. The Council's debtors ledger is 'cluttered' by debtor accounts which have been approved as uncollectable.	The Council should schedule a review of all old debtors accounts and make appropriate write offs as required. **Management response** Any General Fund debts identified as uncollectable are written off as they are identified. A project is being commissioned to ensure that Collection fund debtors are reviewed to write off any uncollectable debts identified.

Controls

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of Shropshire Council's 2022/23 and 2021/22 financial statements, which resulted in 8 recommendations being reported in our 2022/23 Audit Findings report . We have followed up progress against recommendations below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**IT recommendation 1** Lack of review of information security/audit logs in the Active Directory We noted that there are 21 generic accounts in the Active Directory that are controlled by the Council. However, the information security event logs, which capture the monitoring of activities such as failed logins and use of privileged user accounts within Active Directory are not reviewed. **Risk** Without formal and routine reviews of security event logs, inappropriate and anomalous activity may not be detected and resolved in a timely manner. Additionally, unauthorised system configuration and data changes made using privileged accounts will not be detected by management.	Findings have already been reported to the Audit Committee.
X	**IT recommendation 2 - cyber security** A significant recommendation was made relating to insufficient evidence being provided.	Findings have already been reported to the Audit Committee.

Assessment

- ✓ Action completed
- X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Number of management experts (recommendation relevant to 2021/22 and 2022/23 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 .	There has been no change to the Council's valuation process. For 2023/24 the council now also uses internal valuers in addition to four external valuation experts. This recommendation will be carried forward.
Partial	**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. There 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. We recommended the Council ensures 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.	We recognise that management have taken steps towards addressing this but continue to recommend a focus on departments/areas where there have been delays in the receipt of audit information.
✓	**Asset capitalisation (recommendation relevant to 2021/22 and 2022/23 audit)** Our testing of PP&E additions and review of information in both the 2021/22 and 2022/23 financial years has identified items of capital expenditure capitalised in the wrong accounting period. We recommended the Council should review its year end process in relation to capital accruals to ensure assets are capitalised in the correct financial year.	Our sample testing has not identified any assets which are included in the incorrect accounting period.

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Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**MRP policy (recommendation relevant to 2021/22 and 2022/23 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. We recommended the council keep its MRP policy under review and ensure it is charged in accordance with the Capital Finance Regulations.	There have been no changes in the way the Council calculates its MRP as such this recommendation remains open.
Partial	The Council should review its accounting polices to ensure they remain appropriate. In particular in relation to: • Finance leases • Diocese schools remaining on balance sheet- The Council currently holds £10.2m diocese schools within its financial statements. The Council should ensure it revisits the assessment of 'control' regarding the 5 schools remaining on council's balance sheet as this assessment was completed a number of years ago. • Material estimation uncertainty	We are satisfied accounting policies have been presented to Audit Committee, we have not however seen any wider evidence of these areas being commented upon specifically in terms of review. As such marked as partial .
Partial	The council should review its disclosures in relation to Pension guarantees and whether disclosure under contingent liability is the most appropriate treatment	We are satisfied accounting policies have been presented to Audit Committee, we have not however seen any wider evidence of these areas being commented upon specifically in terms of review. As such marked as partial .

Assessment

✓ Action completed

X Not yet addressed

D. 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 2024.

Detail	Comprehensive Income and Expenditure Statement (000's)	Statement of Financial Position (000's)	Impact on total net expenditure (000's)	Impact on general fund (000's)	Adjusted agreed in financial statements
The Councils IAS 19 report included an investment rate of return based on actual rate of return for 11 months (to February 2024) and an estimated rate of return for one month (March 2024). This produced an annual rate of 13.72% which was used in the IAS 19 calculation. The Actual rate of return for the year is 12.34%. The Council have obtained an updated IAS 19 report using the actual investment rate of return. This updated report has identified, that should the actual rate of return be used in the IAS19 report, Pension assets would be £17.2m lower than those reported in the draft financial statements. The Council is in the progress of updating its draft financial statements.	(£17,200)	Increase net Pension liability £17,200 Increase Pension reserve £17,200	Nil	Nil	TBC
Capital Grants Received in advance - The Council has incorrectly accounted for BT gainshare receipt, in both the current and prior financial years. This should be accounted for within the appropriate reserve with any monies due to other parties accounted for as a creditor.	Increase taxation an non specific grant income £3,435	Decrease grants received in advance – capital £5,429 Increase payables £1,994 Increase capital grants Unapplied account £3,435	Nil	Nil	TBC

D. 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.

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/issue/Omission	Auditor recommendations	Adjusted?
Throughout	A number of typographical errors have been identified throughout the financial statements.	TBC
Throughout	A number of immaterial accounting policies and disclosures have been included in the financial statements. These should be removed to avoid obscuring material information within the financial statements.	TBC
Narrative Report As per CIPFA Code 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. This is particularly relevant due to increase activity of subsidiary, Cornovii Developments Limited when compared to prior year.	TBC
Narrative Report 'Revenue Outturn Position for 2023/24' as report in the narrative report is not consistent with that reported in note 7 – EFA per the accounts. Corporate service expenditure per the narrative report = (£26.245m) compared to (£26.819m) per note 7 to the financial statements, a difference of £574k	Narrative report and note 7 (EFA) to be reviewed and updated for consistency.	TBC

D. 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/issue/Omission	Auditor recommendations	Adjusted?
Note 35 Exit packages This note does not comply with the CIPFA code . Per para 3.4.4.1 the note should include *Number of exit packages agreed (grouped in rising bands of £20,000 up to £100,000, and bands of £50,000 thereafter), analysed between compulsory redundancies and other departures. Authorities shall also disclose the total cost of packages agreed in each band.* *The Councils draft financial statements note 35 includes the following bandings:* *£0-20,000* *£20,001 - £40,000* *£40,001+*	Note to be updated to ensure relevant bandings included	TBC
Note 42 -Related parties Testing of related party transactions identified for one individual, transactions with an organisation the council also has as a supplier.	Related party note to be updated	TBC
Note 45-Better Care Fund Narrative has not been updated and refers to Clinical Commissioning Groups.	Update Better Care Fund to refer to appropriate organisation	TBC

D. 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

The table below provides details of adjustments identified during the 2023/24 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve managements proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement (000's)	Statement of Financial Position (000's)	Impact on total net expenditure (000's)	Impact on general fund (000's)	Reason for not adjusting
Net pension liability The Pension Fund Auditor (PFA) reported an unadjusted misstatement of £12.697m relating to estimation difference identified in the valuation of Investments. The investments were understated, and the proportion relating to the Council is approximately £5.672m. Therefore, the net pension liability recognised in the statement of accounts is overstated by £5.672mk. This has been recorded as a misstatement.	(£5,672)	Decrease net Pension liability £5,672 Decrease Pension reserve £5,672k	Nil	Nil	This is an estimation – adjustment is not expected

D. 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 - prior year

There were 2 unadjusted misstatements reported in the 2022/23 Audit Findings Report. We are satisfied necessary amendments have been made as part of the 2023/24 financial statements.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure	Reason for not adjusting given as part of 22/23 audit findings
Pension asset The response from the Pension Fund auditor includes details of an understatement of pension fund assets relating to a timing difference of £2.244m . Using an estimated share of net assets of 45.11% as part of their audit procedures the Pension Fund auditor estimated the potential impact for Shropshire is £987k. Therefore, the net pension liability recognised in the statement of accounts is overstated by £987k. This has been recorded as a misstatement.		Decrease net pension liability £987k Decrease Pension reserve £987k		This is an estimation – adjustment is not expected
Other Land and Buildings (OLB) – Gross internal areas Our testing of Other Land and Buildings has identified an error in the use of an incorrect gross internal area (Oswestry Leisure Centre). This has been revalued based on the correct GIA and the value of the asset is now £2.1m lower than the initial valuation . When extrapolated across the remaining untested population there is residual uncertainty of £1.5m.		Decrease in OLB £3.6m Decrease in revaluation reserve £3.6m		**Management comment** Procedures will be put in place to confirm that GIA figures provided to valuers have been correctly applied. This should minimise the risk of any future misstatements.

E. Fees and non-audit services

We confirm below our final fees charged for the audit . There were no fees for the provision of non-audit services.

Audit fees	Proposed fee per audit plan	Final fee
Shropshire Council Audit - scale fee	£367,241	£367,241
ISA 315	£12,550	£12,550
Additional group procedures regarding Cornovii Developments Limited – Inventory balance		£9,000
Additional Value for Money procedures regarding NWRR		£15,000
Audit of subsidiary company Shropshire Towns and Rural Housing Limited (STaRH) (Fee is paid for by STaRH Housing)	£36,750	£36,000
Total audit fees (excluding VAT)	£416,541	£439,791

E. 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	£379,791*	£403,791
Audit of subsidiary company - Shropshire Towns and Rural (STaR) Housing Ltd	£36,750	£36,000
Total audit fees (excluding VAT)	£416,541	£439,791

Non-audit fees for other services	Fees
Audit Related Services: • Housing Benefit Subsidy Claim	**£56,540
Total non-audit fees (excluding VAT)	**£56,540**

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

The Councils audit fees per note 37 total £380k which agrees to draft proposed fee. An additional fee of £9k has been calculated in relation to group account balances now in scope for audit procedures, namely, Cornovii Developments Limited – inventory balance. An additional fee has also been included of £15k relating to additional VFM procedures for the NWRR. Both variations are subject to discussion with the S151 officer and agreement of PSAA.

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence.

grantthornton.co.uk

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[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Grant Thornton UK LLP

Shropshire Council
Financial Statements for the year ended 31 March 2024

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 2024 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 2023/24 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 2023/24 ("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. Such accounting estimates include Council Dwellings valuations, other Land & Buildings valuations, Investment Property valuations and the net Pension Liability. 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. 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.

viii. 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.

ix. 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.

x. 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.

xi. 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 and its financial position at the year-end OR list reasons. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards, this includes the appropriate consideration of Equal Pay Claims.

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

xiv. 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 entity 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

xv. 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.

xvi. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

xvii. We have considered the impact of RAAC on the Councils financial statements and made necessary disclosures as appropriate;

xviii. 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

xix. 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.

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

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

xxii. 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.

xxiii. 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.

xxiv. 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.

xxv. 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.

xxvi. 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.

xxvii. 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

xxviii. 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

xxix. 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 20 December 2024.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Council

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DRAFT -Independent auditor's report to the members of Shropshire Council

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of Shropshire Council (the 'Authority') and its subsidiaries and joint ventures (the 'group') for the year ended 31 March 2024, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income & Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2024 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2024) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Executive Director of Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Executive Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 that the Authority's and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's and the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Executive Director of Resources with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Annual Governance Statement and the Statement of Accounts, other than the financial statements, our auditor's report thereon, and our auditor's report on the pension fund financial statements. The Executive Director of Resources is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in November 2024 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority and the Executive Director of Resources

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Resources is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003 , Local Government Act 1972, Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.

We enquired of management and the Audit Committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- large and unusual manual journals and those manual journals with a direct impact on the financial performance of the Council; and

- potential management bias in determining accounting estimates, especially in relation to the calculation of the valuation of the Council's land and buildings (including council dwellings) and net pensions liability

Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud;
- journal entry testing, with a focus on large and unusual manual items and significant journals at the end of the financial year which impacted on the Council's financial performance;
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings (including council dwellings) valuations and net pension liability and;
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the potential for management override of controls. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team and component auditors included consideration of the engagement team's and component auditors

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector in which the group and Authority operates
- understanding of the legal and regulatory requirements specific to the Authority and group including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

For components at which audit procedures were performed, we requested component auditors report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.]

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024.

We have nothing to report in respect of the above matter except for:

On 17 July 2024 we identified a significant weakness in the Authority's arrangements for financial sustainability This was in relation to the Authority's financial sustainability in the medium term. We recommended the Authority:

- re-considers all aspects of service delivery to ensure financial sustainability with efforts being directed toward the identification and delivery of savings that reduce the indicative budget gaps in 2025/26 and in future years, along with supporting the replenishment of reserves. In addition, the Authority should ensure that there are alternative options to deliver a balanced MTFS in future years, reducing reliance on one-off measures to support the revenue budget (including non-recurrent savings, one-off grants and reserves) and, if required, how the reduction or removal of services in its long-term plan fits with its organisational strategy and the priorities of stakeholders. This recommendation had not yet been actioned for the year ended 31 March 2024 and as such the significant weakness remains in place.

On 28 November 2024, we identified a significant weakness in the Authority's arrangements for Governance. This was in relation to the formalisation of governance and reporting arrangements relating to the North West Relief Road (NWRR). We recommended the Authority:

- should formalise the NWRR Executive Board, funding plan, arrangements for monitoring of delegations, reporting of project status with regards to the funding plan and plan to manage abortive costs to mitigate significant revenue costs impacting on the Council's financial position were the project to not go ahead.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in November 2024. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Shropshire Council for the year ended 31 March 2024 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary in relation to consolidation returns, including Whole of Government Accounts (WGA), and the National Audit Office has concluded their work in respect of WGA for the year ended 31 March 2024. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2024.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 85 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Avtar Sohal, Key Audit Partner

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

Birmingham

Date: