

Shropshire Council
Legal and Democratic Services
Shirehall
Abbey Foregate
Shrewsbury
SY2 6ND

Date: 21 October 2020
My Ref:
Your Ref:

Committee:
Audit Committee

Date: Thursday, 29 October 2020
Time: 1.30 pm
Venue: THIS IS A VIRTUAL MEETING - PLEASE USE THE LINK ON THE AGENDA TO LISTEN TO THE MEETING

Members of the public will be able to listen to this meeting by clicking on this link:

<https://www.shropshire.gov.uk/auditcommittee29october2020/>

Please note that this meeting will be made available through Microsoft Teams Live Events - your device will need to meet the minimum specification as detailed on the Microsoft website at this link: [Device Specification](#)

- You will need to download MS Teams (free) and click on the link to listen to the meeting if you are using a PC
- If using a mobile device, you will need to download the MS Teams app (free) before clicking the link
- Use the link at 1.30 pm on the day of the meeting and click on 'Join as Guest'
- You may receive an error message or a request for login details if you try to gain access before 1.30 pm

You are requested to attend the above meeting.

The Agenda is attached

Claire Porter
Director of Legal and Democratic Services (Monitoring Officer)

Members of Audit Committee

Peter Adams (Chairman)
Ioan Jones
Chris Mellings

Brian Williams (Vice Chairman)
Michael Wood

Your Committee Officer is:

Michelle Dulson Committee Officer

Tel: 01743 257719 Email: michelle.dulson@shropshire.gov.uk

AGENDA

1 Apologies for Absence / Notification of Substitutes

2 Disclosable Pecuniary Interests

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

3 Minutes of the previous meeting held on the 17 September 2020 (Pages 1 - 8)

The Minutes of the meeting held on the 17 September 2020 are attached for confirmation.

Contact Michelle Dulson (01743) 257719

4 Public Questions

To receive any questions from the public, notice of which has been given in accordance with Procedure Rule 14. The deadline for notification for this meeting is 1.30pm on Tuesday 27 October 2020.

5 Member Questions

To receive any questions of which Members of the Council have given notice. The deadline for notification for this meeting is 1.30pm on Tuesday 27 October 2020.

6 Third line assurance: External Audit: Redmond Review Briefing (Pages 9 - 26)

The report of the Engagement Lead is attached.

Contact: Richard Percival (0121) 232 5434

7 Third line assurance: External Audit: Shropshire County Pension Fund Audit Findings 2019/20 (Pages 27 - 40)

The report of the Engagement Lead is attached.

Contact: Richard Percival (0121) 232 5434

8 Audited Statement of Accounts 2019/20

The report of the Head of Finance, Governance and Assurance (S151 Officer) is to follow.

Contact: James Walton Tel: (01743) 258915

9 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 10 December 2020 at 1.30pm

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Committee and Date

Audit Committee

29 October 2020

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 17 SEPTEMBER 2020 1.30 - 3.15 PM

Responsible Officer: Michelle Dulson

Email: michelle.dulson@shropshire.gov.uk Tel: 01743 257719

Present

Councillor Peter Adams (Chairman)

Councillors Ioan Jones, Michael Wood and Gerald Dakin (substitute for Brian Williams)

106 Apologies for Absence / Notification of Substitutes

106.1 Apologies for absence were received from Councillors Brian Williams and Chris Mellings.

106.2 Councillor Gerald Dakin substituted for Councillor Williams.

107 Disclosable Pecuniary Interests

107.1 The Chairman reminded Members that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

108 Minutes of the previous meeting held on the 31 July 2020

108.1 Paragraph 89.5 - First line assurance: Digital Transformation Update

A query was raised as to whether the requested table setting out the costs, savings and efficiencies of each of the transformation programmes had been circulated to Members. In response, the Head of Audit explained that the information was currently being pulled together and would be provided in due course.

108.2 Paragraph 90.5 b) - Second line assurance: Annual whistleblowing report

In response to a query as to whether the Chairman and the Head of Audit had met with Councillor Vasmer, the Head of Audit confirmed that they had and that they had agreed to revisit the Whistleblowing Policy at the meeting of the Audit Committee on 10 December 2020. A revised version would be circulated to Members prior to the meeting in order to capture any suggested improvements/amendments.

108.3 Paragraph 95.3 - Overall assurance: Annual Governance Statement and a review of the effectiveness of the Council's internal controls and Shropshire's Code of Corporate Governance 2019/20

The Head of Audit confirmed that the issue of completion of Director Objectives had been raised with Directors. The Director of Finance, Governance and Assurance (Section 151 Officer) explained that the Director Objectives had been identified as part of the Annual Governance Statement and he now had confirmation that once the new Chief Executive had been formally appointed by Council, approaches for identifying and managing Director Objectives would be formalised. In the meantime, however, those informal conversations had continued.

108.4 RESOLVED:

That the minutes of the meeting of the Audit Committee held on 31 July 2020 be approved as a correct record.

109 Public Questions

109.1 No public questions had been received.

110 Member Questions

110.1 No Member questions had been received.

111 Second line assurance: Risk Annual Report 2019/20 incorporating Strategic Risks Update

111.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the challenges and achievements accomplished by the Risk, Insurance and Resilience Team during 2019/20. The team includes both business continuity management and the civil contingencies responsibilities of emergency planning and as a result of this the team have experienced an unprecedented workload due to significant weather events and Coronavirus. However, the team has worked tirelessly to respond to all of these incidents whilst maintaining delivery of the day job.

111.2 The Risk and Insurance Manager was pleased to report that the Audit review of risk management this year had again identified the assurance level as 'Good'. The Committee was informed that the quarterly reviews of the strategic risks had taken place and that despite heavy workloads, all officers had responded to the request for updates on the risk profiles. Turning to the review meeting in June, this took place virtually with the individual risk owners (Directors). There were 18 strategic risks on the Strategic Risk Register, detailed in the table at paragraph 6.1.9 of the report.

111.3 Turning to Operational Risks, the Risk and Insurance Manager explained that all risks were now on a Sharepoint site so that risk owners had access to update the risks at any time, not only during the bi-annual review. The team were currently working with IT colleagues to develop PowerBi reporting to allow them to monitor and report on the operational risks with live data at any time. The Risk and Insurance Manager informed the Committee that the team continued to support

projects with their risks and that they were moving these onto Sharepoint so they could monitor and report on live data.

111.4 The Risk and Insurance Manager reported on the work undertaken in relation to Business Continuity, in which area they have faced many challenges, including supporting service areas to respond to Covid and to keep key service areas functional. The Risk and Insurance Manager then highlighted the work undertaken in relation to emergency planning, training and external work. She reported the team were disappointed that they were unable to hold their first Shropshire Resilience Conference in May which was postponed due to Covid-19 but has been re-scheduled for May 2021.

111.5 Finally, the Risk and Insurance Manager congratulated her colleague, Jane Cooper who has now taken over as Chair of the Midlands Alarm Steering committee.

111.6 In response to a query, the Risk and Insurance Manager expanded on procedure for the 'Covid-safe' reinstatement of services which have been ceased as a result of the lockdown measures, referred to in paragraph 6.5.3 of the report. In response to a query in relation to how prepared the Council were for a second spike of the virus, the Risk and Insurance Manager confirmed that robust policies and procedures were now in place to better respond to a further outbreak. The Risk and Insurance Manager responded to a further query in relation to the reopening of all swimming and leisure facilities across the County.

111.7 RESOLVED:

To accept the position as set out in the report.

112 Second line assurance: Annual Treasury Report 2019/20

112.1 The Committee received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which informed members of treasury activities for Shropshire Council for 2019/20, including the investment performance of the internal treasury team to 31 March 2020.

112.2 The Director of Finance, Governance and Assurance (Section 151 Officer) reported that the Internal Treasury Team had outperformed their investment benchmark by 0.42% and that performance over the last three years was 0.32% per annum above benchmark delivering an underspend of £3.75 million. This was mainly due to a review of the Minimum Revenue Provision policy.

112.3 The Director of Finance, Governance and Assurance (Section 151 Officer) drew attention to the Council's borrowing outturn and debt rescheduling. He reported that no debt restructuring had been undertaken during 2019/20. He also confirmed that all borrowing and lending transaction had complied with prudential and treasury limits set out in the Treasury Strategy.

112.4 In response to a query, the Director of Finance, Governance and Assurance (Section 151 Officer) confirmed that the Audit Committee had looked at the premium related to individual loans based on their proposed maturity and fixed rate

interest during Treasury Management training sessions but it did not form part of this report. He explained that Appendix A showed the existing debt maturity schedule, which, once paid off, could be replaced with lower interest rate debt going forward however the Council had very little debt to be repaid in the next 9-10 years. Significant levels of debt were due to be repaid in the next 20-30 years, at which time the Council would consider new borrowing.

112.5 In response to a further query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that currently the Council was 'cash rich' with £157m in the bank, as detailed in the report. Further borrowing would increase this cash but if returns were less than 1% this would cost the local authority more money, no matter how low the interest rate. Further borrowing would only be considered for significant capital expenditure which could not be accommodated within the cash balances.

112.6 RESOLVED:

To accept the position as set out in the report.

113 Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2020/21

113.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided members with an update of work undertaken by Internal Audit in the four and a half months since the beginning of the financial year and the start of Shropshire Council's approved audit plan implementation.

113.2 The Head of Audit advised Members that 35% of the revised Plan had been completed however, due to the impact of Covid there had been a significant adjustment to planned audit activity, however, the team were on target to achieve 90% completion by year end. The Head of Audit drew attention to the proposed significant reduction of 643 days and the slight reduction of resources overall from 2,237 days to 2,157. She confirmed that these changes had been discussed with and agreed by the Director of Finance, Governance and Assurance (Section 151 Officer).

113.3 The Head of Audit drew attention to paragraph 7.3 of the report which detailed the adjustments which had been made to the original plan. Paragraphs 7.4 and 7.5 gave a more detailed example of the Audit Team's response in supporting the Council in administering the Governments Covid-19 Business Support Grants. The Head of Audit reported that three fraudulent claims were identified however full recovery had been made and these cases reported to the Police and the Government Task Force.

113.4 The Head of Audit drew attention to the assurance levels and reported that three good, four reasonable, five limited and five unsatisfactory assurance opinions had been issued and that the 17 final reports contained 313 recommendations, four of which were fundamental. The good and reasonable assurances accounted for 42% of the opinions delivered which represented a significant decrease in the higher level assurances for this period, compared to the previous year (64%). This was offset by a corresponding increase in limited and unsatisfactory assurances (58% compared to 36% the previous year).

113.5 In relation to the four fundamental recommendations set out in paragraph 7.17 of the report, a brief discussion ensued in relation to whether, for fundamental problems within a department identified by the Head of Audit should they be brought consistently before Committee or should the Chairman in consultation with the Head of Audit decide whether to invite the relevant Service Manager and Portfolio Holder to a future meeting. For example, it was proposed that the Service Manager and Portfolio Holder with responsibility for the Pensions Payroll Interface be requested to attend the first meeting of the Committee in the new year. The Head of Audit explained the process undertaken for fundamental recommendations and she suggested that the Committee could be updated by email prior to the meeting once the date for implementation had passed.

113.6 RESOLVED

- a) That performance to date against the 2020/21 Audit Plan set out in this report be noted.
- b) That the adjustments required to the 2020/21 plan to take account of changing priorities set out in **Appendix B**, be approved.
- c) That for those fundamental recommendations where the date of implementation has expired, the Head of Audit will email the Manager requesting written assurance of where they were at with regards to implementation for Members to then assess whether they were satisfied with progress and to consider any further action.
- d) That an update on the Pensions Payroll Interface be provided to the first meeting of the Audit Committee in the new year.

114 Third line of assurance: External Audit: Audit progress report and sector update

114.1 The Engagement Lead wished to update the Committee in relation to progress of the 2019/20 audit, the changes to the value for money approach for the 2020/21 audit and the Redmond Review which was published the previous week.

114.2 The Audit Manager reported on progress since 31 July 2020. She explained that it had been unclear at the start of the audit progress the impact remote working would have on audit delivery, but, with the benefit of hindsight, she reported that remote working had extended the audit process as it was taking longer to verify data and to clarify any queries. It was taking longer to get responses either via email or by arranging meeting times to go through queries in areas such as the physical verification of assets etc.

114.3 In respect of progress, the Audit Manager informed the Committee that the last block of work had been completed on 14 August when the audit team had met with the finance team and discussed a way forward to complete outstanding procedures. A timescale has been agreed with finance to ensure all outstanding information requests could be provided at a time where external audit could allocate resources to the audit but also would fit with the responsibilities of finance. The Audit Manager was pleased to report that the finance team had responded to the

information requests in order to complete the audit and that three members of the External Audit team would be working through this information in the week commencing 28 September. She confirmed that the plan remained to issue the opinion following the Audit Committee meeting on the 29 October 2020.

- 114.4 In response to a query, the Engagement Lead confirmed that Shropshire Council were above the median line in terms of progress with the 2019/20 audit and was in a good place compared to other local authorities.
- 114.5 Turning to the changes to the Value for Money approach. The Engagement Lead explained that currently External Audit identified significant value for money risks, they look at those risks and issue a Value for Money Conclusion and that Value for Money Conclusion could be an unqualified conclusion, it could be qualified and there were two sub divisions of that, 'except for' which meant basically everything was alright apart from this issue or 'adverse' which was a fundamental governance issue which permeated widely through the organisation. However, the Engagement Lead informed the Committee that all that was changing from 1 April 2020 (so for audits from 2021 onwards) the Code of Audit Practice which was issued through the National Audit Office had changed the Value for Money approach. External Audit would no longer issue a Value for Money Conclusion in future, from then on they would be required to take a different, more intense approach.
- 114.6 The Engagement Lead went on to explain that the Value for Money process would focus on three key areas, financial sustainability, governance and improving economy, efficiency and effectiveness. They would have to look at those areas in quite some depth and he gave some examples. He explained that the thinking behind these changes were about promoting timely reporting on the big issues affecting the Council and the Auditor providing more accessible and meaningful reporting. External Audit would have more responsibility to make very clear recommendations for improvement and to ensure the Council was implementing those recommendations.
- 114.7 The Engagement Lead confirmed that the Annual Audit letter would no longer be issued after this year. The Audit Letter was essentially a cut down of the Audit Findings Report which this Committee sees in any case. The Auditors Annual Report that External Audit will be required to produce will be something different and will comment on the work that they have carried out in terms of value for money, it will clearly identify any areas of weakness and identify and summarise their recommendations. External Audit will be required to publish this by 30 September, but ideally when they issue the audit opinion. In summary, it will require more work from External Audit but it will also require a richer skills mix in terms of delivery of that work so all that adds up to additional costs which would be discussed with the Director of Finance, Governance and Assurance (Section 151 Officer) as it will be a significant fee variation.
- 114.8 In response to a query, the Engagement Lead confirmed that there were no changes to the Head of Audit's responsibilities and there would not be fundamental changes to the way External Audit interface with the Head of Audit in as much as we already clearly communicate with each other, but that the Head of Audit would see a more focussed interest and review of those larger audits that she carries out where significant weaknesses were identified to understand why those weaknesses occurred in the first place and whether the actions that are being agreed are both

appropriate and effective. The Head of Audit reassured Members that she had seen the consultation documents and were working on the types of evidence that would be required by External Audit and conversations with External Audit around this were ongoing.

114.9 In response to a query in relation to what was meant by a 'significant' increase in audit fees, the Engagement Lead explained the background to these changes but he could not currently quantify the figure for the audit fee as it was the subject of discussions and a clear costing needed to be undertaken once more was known about the extent of the work to be done however he did confirm that it would not be a minor figure.

114.10 The Engagement Lead updated the Committee in relation to the Redmond Review which had been published the previous week (8 September 2020). The review looked at Local Government Audit and Financial reporting. The purpose of the review was to assess the effectiveness of audit in local authorities and looked at the transparency of financial reporting. Some very interesting recommendations had been made along with some very pertinent and fundamental findings. His basic conclusion was that the current system for local authority auditing and financial reporting was not working and the arrangements that were envisaged in the 2014 Local Audit and Accountability Act had not materialised. There was concern about a lack of coherence in the system, the local audit market is extremely fragile as there was a dearth of the skills required to deliver focused public audit and the fee structure as it currently was did not support the development of the public audit profession. There was an urgent need for action to be taken to address these problems. The Engagement Lead touched on the recommendations from the report and confirmed that a briefing paper would be provided for the next meeting with more detail.

114.11 **RESOLVED:**

That the contents of the verbal update be noted.

115 **Date and Time of Next Meeting**

115.1 Members noted that the next meeting of the Audit Committee would be held on the 29 October 2020 at 1:30pm.

116 **Exclusion of Press and Public**

116.1 **RESOLVED:**

That in accordance with the provision of Schedule 12A of the Local Government Act 1972, Section 5 of the Local Authorities (Executive Arrangements)(Meetings and Access to Information)(England) Regulations and Paragraphs 2, 3 and 7 of the Council's Access to Information Rules, the public and press be excluded during consideration of the following items.

117 **Exempt Minutes**

117.1 **RESOLVED:**

That the exempt minutes of the meeting of the Audit Committee held on 31 July 2020 be approved as a correct record.

118 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7)

118.1 The Committee received the exempt report of the Principal Auditor (copy attached to the exempt signed Minutes) which provided a brief update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment, together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.

118.2 RESOLVED

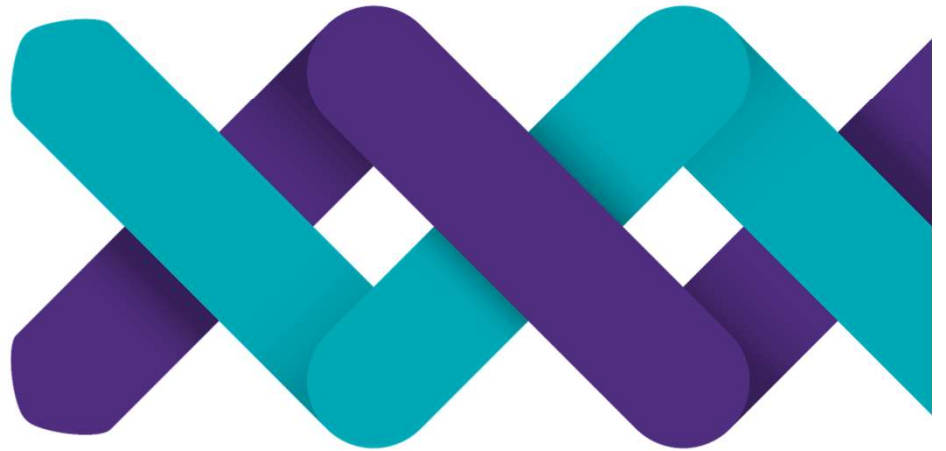
That the contents of the report be noted.

Signed (Chairman)

Date:

Local Government audit and financial reporting – the Redmond Review

Grant Thornton
September 2020



The Redmond Review – scope and purpose

Scope

- Launched September 2019. Views by December 2019
- Led by Sir Tony Redmond, former President of CIPFA

Purpose – to assess

- Effectiveness of audit in local authorities
- Transparency of financial reporting

Publication

- 8 September 2020

Context

Why the need for a review?

- Local audit is facing an unprecedented set of challenges
 - Accounts have grown far more complex
 - Authorities are engaging in more innovative / unusual transactions
 - Austerity has reduced the ability of many authorities to prepare high quality accounts and working papers
 - Audit fees have fallen to an unsustainably low level
 - The sign off date of 31 July is too tight (even without Covid19 pressures)
 - Retention of audit staff is very difficult in this environment
 - Authorities are not getting the service they deserve
 - Radical and urgent reform is needed!

Areas of focus

A wide ranging review

- The Expectations Gap
 - Audit and Wider Assurance
 - Audit Quality
 - The Financial Reporting framework
 - Auditor Reporting
-
- 156 responses
 - Over 100 interviews
 - 83 pages
 - 23 recommendations



The system is not working



The current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act.

As a result, the overriding concern must be a lack of coherence and public accountability within the existing system.

The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.

Without prompt action to implement the recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

Covering letter to the Secretary of State

- The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.
- With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations.
- In addition, the ambition of attracting new audit firms to the local authority market has not been realised.

Detailed findings

Systems leadership is lacking

- The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. No one body is looking for systemic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks (Sir John Kingman)
- There is a need for a new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users.

Detailed findings

Procurement has resulted in fees which are too low

- PSAA adopted the same procurement framework in 2017 as the Audit Commission had done previously in 2014. No assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years.
- Audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors including other parts of the public sector have significantly risen
- Firms stated that the lack of profitability changes the way that local audit work is perceived within the firm. Specialising in this area is seen by many auditors as having a detrimental impact on career prospects.

Detailed findings

The audit timescale is unrealistic and unhelpful

- The compression of the audit timetable was mentioned as an issue by every audit firm. Firms raised concerns about the resulting peaks in workload, pressures on staff during the summer months, and knock-on effects when target dates are not met. These pressures contribute to making work unpopular with local audit staff

Detailed findings

Financial reporting is overly complex / not always relevant

- Local authority accounts are arguably more complex and more challenging for a service user to understand than accounts produced by other parts of the public sector.
- Scope identified to improve transparency and relevance of reporting e.g:
 - asset valuations: accounting is complex and the perception of many stakeholders is that it does not add value
 - going concern disclosures are perceived to be less relevant in a local authority context than financial resilience

Detailed findings

Governance and transparency of reporting needs improvement

- The ability of Audit Committees, which mostly lack independent, technically qualified members, to consider, effectively, audit reports has been challenged in responses to the call for views.
- Transparency and accountability of audit reports, from a public perspective is lacking.
- There needs to be a greater role for full council and a stronger interface between statutory officers and audit.

Detailed findings

There is too much focus on Property and Pension Valuations

- Authorities concerned that auditors are spending significant time on fixed asset and pension valuations, rather than on major areas of expenditure and usable reserves, Auditors coming through the system are not developing a wider understanding of LG context
- Firms would prefer to do less work on asset and pension valuations but explained that these areas are given more attention to secure a positive assessment from the FRC
- The FRC believes that if a focus on asset and pension valuations is inappropriate, this is the responsibility of CIPFA/ LASAAC

Sir Tony's Recommendations

A call for action

- **A new regulator** - the Office of Local Audit and Regulation to replace the FRC and PSAA
- **Scope to increase fees** - The current fee structure for local audit be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- **Move back to a September deadline** - The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year

Sir Tony's Recommendations

A call for action

- **Accounts simplification** - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts
- recognition of the **role of authorities in improving governance and reporting** and
- development of **audited and reconciled accounts summaries.**

Where next?

A call for action

- Consultation
- Legislation
- Immediate actions

Given the urgency, it is imperative to introduce change where possible now, even ahead of legislation

Grant Thornton's View

Sir Tony Redmond's report provides a clear road map to secure appropriate scrutiny and a sustainable future for local government audit. Reinforcing transparency and accountability is critical in protecting the interests of citizens who both fund and rely on the services delivered by local authorities. Introducing an Office of Local Audit and Regulation will help simplify and re-energise this vital public function at a time when local finances and governance are in need of effective oversight. We look forward to supporting Sir Tony and Government as this report progresses from recommendation to reality.



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The Audit Findings for Shropshire County Pension Fund

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Year ended 31 March 2020
18 September 2020



Contents



Your key Grant Thornton
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Section

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2. Financial statements
3. Independence and ethics

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Appendices

- A. Audit adjustments

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.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Shropshire County Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund and Pensions staff have had to work from home</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum. In that addendum we reported an additional financial statement risk in respect of Covid -19. Further detail is set out on page 6.</p> <p>We have considered emerging guidance issued by the Financial Reporting Council and actively contributed to audit firm and NAO technical meetings where the impact of the virus on the financial reporting disclosures and audit approach has been discussed.</p> <p>Restrictions resulted in both the Council and audit team introducing new remote access working arrangements including remote accessing financial systems and video calling.</p>
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Financial Statements Page 29	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	<p>Our audit work was completed during July and August 2020. Our findings are summarised on the following pages. We have not identified any required adjustments to the financial statements and therefore there is no adjustment to the Pension Fund's reported financial position following our audit. We have agreed a small number of disclosure changes with the team, which are detailed later on in the report.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to some outstanding matters including the receipt of a signed management representation letter and review of the final financial statements and Annual Report. The Pension Fund opinion will be issued at the same time as the Shropshire Council opinion. As the main Council has been delayed, there is a possibility of new issues arising before the opinion is issued such as in relation to the restitution of the McCloud case.</p> <p>Our anticipated audit report opinion will be unmodified. Our audit report will include an Emphasis of Matter paragraph, highlighting material uncertainties in relation to the asset valuations as at 31 March 2020 due Covid-19 pandemic.</p>
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Acknowledgements

We would like to take this opportunity to record our appreciation for the good assistance provided by the Treasury & Pensions team and other staff during our audit.

Summary

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter or change our audit plan, as communicated to you in April and May 2020

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Pensions Committee meeting following 18 September 2020, as detailed in our opinion

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Our approach to materiality

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

Materiality calculations have been reduced from that reported in our audit plan due to a fall in the value of investments as at 31 March 2020. We detail in the table below our determination of materiality for Shropshire County Pension Fund.

	Pension Fund Amount (£m)	Qualitative factors considered
Materiality for the financial statements	18.3	We determined materiality for the audit of the Fund's financial statements as a whole to be £18.3m, which is approximately 1% of the Fund's net assets as at 31 March 2020. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in security and value of its assets.
Performance materiality	12.81	We have determined £12.81m (70% of materiality) to be an appropriate level for Performance Materiality. The Fund has a stable, experienced team with no history of accounting issues and this continues to be the case.
Trivial matters	0.915	We deem matters below 5% of materiality to be sufficiently trivial not to warrant drawing to the attention of the Committee.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of local authorities, including Shropshire Council as the administering authority, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Shropshire Council Pension Fund. Our work did not find any significant issues relating to improper revenue recognition.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.

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Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3

Covid-19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates
- For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions: and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement

Auditor commentary

We have undertaken the following work in relation to this risk:

- Worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach
- Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise
- Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic.
- Evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely
- Evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations.
- Discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence

We will include an emphasis of matter paragraph in our audit opinion due to the impact of the pandemic on Level 3 asset valuations (see page 7). The purpose of this is to draw the reader's attention to this issue. It is not a qualification or modification of our audit opinion.

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Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3

The valuation of Level 3 investments is incorrect

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

We identified the valuation of level 3 investments as a risk requiring special audit consideration.

Auditor commentary

We have undertaken the following work in relation to this risk:



- gained an understanding of the Fund’s process for valuing level 3 investments and evaluated the design of the associated controls
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments.
- consideration of the competence, expertise and objectivity of any management experts used.
- for a sample of investments, challenged the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period.
- independently requested year-end confirmations from investment managers and custodians
- where available reviewed investment manager service auditor report on design effectiveness of internal controls.

The Pension Fund drew attention to asset values material uncertainties in the sensitivities of estimates note to the accounts. This was after the Fund received year end valuations from fund managers which also included reference to material uncertainties in these valuations due to the Covid-19 pandemic. Our audit report will include an emphasis of matter paragraph highlighting this.





As in previous years the Fund estimated the 31 March 2020 value in the accounts for the HarbourVest Fund as the final fund manager statement is not received until after the accounts are closed down. The estimated value was £5.3 million lower than the actual fund manager valuation which was subsequently received.

Our work did not find any other significant issues in the valuation of level 3 investments.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 3 investments	The Pension Fund has investments in unquoted investments and pooled investments that in total are valued on the balance sheet as at 31 March 2020 at £307m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuations provided by the general partners to the private equity funds which the Fund invests in.	Management determine the value of Level 3 Investments through placing reliance on the expertise of the investment managers. As such we have sought confirmations of year end valuations from all main mandate managers. We have also tested a sample of level 3 investments to audited accounts to determine if the values estimated are reasonable. Please see our findings on page 7.	 Green
Level 2 investment	The Pension Fund have investments in unquoted bonds and pooled investments that in total are valued on the balance sheet as at 31 March 2020 at £162m. The investments can not be easily reconciled to valuations recorded on an open exchange / market as the valuation of the investments involves some subjectivity. In order to determine the value, management rely on the information which they are given from the various fund managers.	Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers. As such we have sought independent confirmations of year end valuations from all main mandate managers and also tested a sample of unit values used to value level 2 investments to externally quoted information sources, or where not quoted, to unit values provided by the investment manager's own independent custodian. As in previous years the Fund estimated the year end value of Global Infrastructure Partners as the final 31 March statement is not received when closing accounts down. When the actual statement was received it was £8.7 million lower than the estimate. We have found no other issues with this testing and are satisfied that the estimate is appropriately disclosed in the accounts.	 Green

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable

Significant findings - Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditor commentary

- We are satisfied that management's assessment that the going concern basis is appropriate for the 2019/20 financial statements.

Work performed

We have assessed the judgment made by management as well as the forecasted financial information which they have provided us which supports the assessment that the Fund will continue as a going concern for at least 12 months from the date of our audit opinion.

Auditor commentary

- The Net Assets of the Fund at 31/3/20 were £1.83bn. This is significantly higher than the annual benefit payments due.
- The Fund has more than £1.3bn of Level 1 assets. These assets are liquid and can be accessed quickly for cashflow purposes if required.
- The Local Government Pension Scheme is a statutory scheme and there are no events or conditions that would indicate the winding up of the scheme.
- No issues have been identified from the work performed

Concluding comments

Auditor commentary

We are satisfied that management's assessment that the going concern basis is appropriate for the 2019/20 financial statements and that we have nothing to report on in relation to going concern.

Other communication requirements

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

Issue	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Pensions Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Pension Fund which is included in the Pension Fund Committee papers. At this point in time we will not be requesting additional representations.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested direct confirmations from the custodian and all main mandate fund managers, plus a sample of managers for alternative investments for investment balances. We have received confirmations from managers.
⑥ Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
⑦ Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management was provided.
⑧ Matters on which we report by exception	<ul style="list-style-type: none"> We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report along with our opinion on the accounts.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

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

Details of fees charged are detailed are below.

Audit Fees	Proposed fee	Final fee
Pension Fund Audit	£22,289	£22,289
Other Services - Non Audit	3,000	TBC
Total fees (excluding VAT)	£25,289	TBC

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Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund.

Non Audit

Provision of IAS 19 Assurances to Scheme Employer auditors

We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations. Our original estimate for this in the audit plan was £3,000 based on the work required in previous years. The work required has increased this year, particularly in relation to testing of data sent to the Actuary for the 2019 triennial valuation of the Fund. We will inform you shortly of the final fee.

These services are consistent with the Fund's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees

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

One unadjusted misstatement was noted per the below table which was above our trivial threshold. This is in relation to two of the Fund's level 2 and 3 holdings, the value of which is lower in the general ledger and financial statements than the valuation provided by the investment manager. This came about as a result of the timing difference between production of the financial statements and provision of valuation information by some investment managers. The misstatement is well below materiality and, given the nature of the valuations as an estimate, we are satisfied that it is reasonable for the Fund not to adjust as these kind of issues are not unexpected owing to the shortened reporting timeframe and issuance of some valuations in arrears, does not constitute a control weakness or risk of material misstatement.

Detail	Pension Fund Account £m	Net Asset Statement £m	Impact on total net assets £m
1 L2 and L3 investment assets overstated in accounts by £14.1m. Fund did not adjust on the basis of materiality.	14.1	14.1	14.1
Overall impact	£14.1	£14.1	£14.1

Misclassification and disclosure changes

The Fund made a few amendments to its disclosures at audit. For example it enhanced Note 5: assumptions made about the future and other major sources of estimation uncertainty in relation to estimation uncertainty for asset values as at 31 March 2020 in light of Covid 19 pandemic and also Note 4: critical judgments in applying accounting policies in relation to the McCloud judgement.

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