

# The Audit Findings for Shropshire Council

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**Year ended 31 March 2019**

**23 July 2019**



# Contents



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Section	Page
1. Headlines	3
2. Financial statements	4
3. Value for money	17
4. Independence and ethics	21
<b>Appendices</b>	
A. Action plan	
B. Audit adjustments	
C. Fees	
D. Audit Opinion	

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 Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Financial Statements</b>	<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 group and Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the group and Council and its income and expenditure for the year; and</li><li>• 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.</li></ul> <p>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 inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July, and at the time of drafting is still in progress. Our findings are summarised on pages 6 to 17. We have identified adjustments to the financial statements relating to the Council's pension liability that have resulted in a £11.8 million change to the Council's Comprehensive Income and Expenditure Statement. (audit adjustments are detailed in Appendix B). This does not impact on the Council's General Fund balance. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit was presented to the February 2019 Audit Committee. There were no outstanding issues which identified risks we had not already included within our testing strategy.</p> <p>Our work is substantially complete and at this stage there are no matters of which we are aware that would require modification of our audit opinion. Subject to outstanding work detailed on page 4, we anticipate issuing an unqualified audit opinion by 31 July 2019 deadline. There is still some work which requires Engagement Lead review and this will be progressed following the issuing of this report. These outstanding items include the receipt of management representation letter and the review of the final set of financial statements.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Shropshire Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 17 to 20.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>• To certify the closure of the audit.</li></ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code with the exception of the work on Whole of Government consolidation. Therefore, we are unable to issue our completion certificate at this stage, but will issue as soon as this work is completed. This may align with the issuing of our opinion.</p>

## Acknowledgements

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

## Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components based on a measure of materiality considering each as a percentage of the parent's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a full scope audit was required for Shropshire Towns and Rural (STaR) Housing Ltd due to its size, whereas analytical procedures would be undertaken on the other components using their draft financial statements.
- 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 on 25 February 2019.

## Audit status

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved and final quality reviews by the Engagement Lead, we anticipate issuing an unqualified audit opinion on or before the deadline of 31 July 2019, as detailed in Appendix D. These outstanding items include:

- Review of final valuations reports for JPUT alongside information provided to valuer
- Evidence to support outstanding Investment property leases
- Valuer confirmations relating to movement on assets not formally valued
- Pension information to support the average age of active scheme members weighted by salary
- completion of audit file documentation
- final review of the audit work completed by the Engagement Lead
- receipt of management representation letter and
- review of the final set of financial statements.

# Summary

## 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 remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Shropshire Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	11,700,000	11,350,000	<ul style="list-style-type: none"> <li>The benchmark used is gross expenditure. This is considered an appropriate benchmark because the Council's stakeholders will be interested in how it has used resources to deliver services.</li> </ul>
Performance materiality	8,800,000	8,500,000	<ul style="list-style-type: none"> <li>Our performance materiality is set at 75% of our financial statements materiality; this ensures our audit testing achieves sufficient coverage of large balances and related data populations.</li> </ul>
Trivial matters	600,000	550,000	<ul style="list-style-type: none"> <li>This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.</li> </ul>
Materiality for officer remuneration	Officer remuneration is a sensitive item over which stakeholders will expect the Council to take particular care. We have therefore set a specific materiality of £100k for this area.		

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>1 The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p><b>Auditor commentary</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Shropshire Council.</p>
<p><b>2 Management override of controls</b></p> <p>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. .</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p><b>Auditor commentary</b></p> <p>We have:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals</li> <li>• Analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>Our testing is subject to completion and review.</p>

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>3 Valuation of the pension fund net liability</b></p> <p>The Council's pension fund net liability represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the value involved (£420 million in the Council's balance sheet as at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We have therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p><b>Auditor commentary</b></p> <p>We have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation</li> <li>• assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary</li> <li>• 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</li> <li>• obtained 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 sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul> <p>The Council's accounting policy on the valuation of the net pension fund liability is shown in note 1.26 (Employee Benefits) and related disclosures are included in notes 41 and 42.</p> <p>At the time the accounts were prepared there was significant uncertainty about whether the Government would have leave to appeal to the Supreme Court following the Court of Appeal's decision in the McCloud case concerning age discrimination in Judges and Firefighters' pension schemes. This is a national issue and there have been significant developments during the course of our audit. In late June the Government was refused leave to appeal, which meant that the impact on local authorities pension liabilities became more certain.</p> <p>The Council commissioned an updated actuary report to consider the impact of the recent McCloud court ruling on pensions liabilities. As a result has the net pension liabilities increased by £11.8 million. This has no impact on the Council's useable reserves.</p> <p>We have not yet concluded our work on the Council's revised pension liability.</p>

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

4

### Valuation of land and buildings

The Council revalues its land and buildings on a five-yearly basis.

To ensure the carrying value in the Council and group financial statements is not materially different from the current value at the financial statements date, the Council requests a desktop valuation from its valuation expert. This valuation represents a significant estimate by management in the financial statements due to the value involved (£1.1 billion) and the sensitivity of this estimate to changes in key assumptions.

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

### Auditor 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 valuation expert
- discussed with the valuer 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 completeness and consistency with our understanding
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register


Our audit work is subject to Engagement Lead review



# Significant findings arising from the group audit

Component	Findings	Group audit impact
<b>Jersey Property Unit Trust (JPUT)</b>	<p>The purchase of the Jersey Property Unit Trusts which hold the three Shopping Centres in Shrewsbury was a significant and complex transaction for the Council in 2017/18.</p> <p>The Council disclosed the closing value of the JPUT in the 2017/18 group financial statements at £52.2 million, comprising £49.3 million transferred to the vendor and £2.8 million of goodwill (made up of the £2.4 million held in an escrow account by Browne Jacobson to mitigate against potential void guarantees for the two years post purchase, and £0.5 million capitalised in respect of rent free lettings).</p> <p>We previously reported that the goodwill stated in the group accounts is incorrect and should be removed from the financial statements (£2.8 million). This has been calculated as the difference between the purchase price of the Unit Trust as determined by the Council (£52.2 million) and the value of the assets and liabilities in the JPUT (£49.3 million) As stated earlier we consider that the purchase price is £49.3 million.</p> <p>The Council revalued the three shopping centres as at 31 March 2019. This indicated a fall in value resulting in an impairment being shown in both the Council's and the group financial statements.</p> <p>The Council is showing the closing value of the JPUT in the 2018/19 group financial statements at £40.5 million. The impairment has removed the goodwill element from the group financial statements and also reduced the asset valuation. However, the escrow account is still part of the valuation and as such, forms part of the overall asset valuation.</p>	<p>In 2017/18, the Council paid £2.4 million into an escrow account held by Browne Jacobson to mitigate against potential void guarantees for the two years post purchase.</p> <p>The funds held in the escrow account in respect of rent guarantees only flow to the vendor as rental income is received by the Council. If no rental income is received, then the funds will be repaid to the Council.</p> <p>At 31 March 2019, £1.4 million remains in the escrow account. This has been recognised as a short term investment in the entity accounts which is consistent with the treatment in the prior year. There is no adjustment for this in the group consolidation and therefore this is also sitting as a short term investment in the group accounts.</p> <p>The Code states that a financial asset is a contractual right to receive cash or another financial asset from another entity.</p> <p>The terms of the escrow account are such that there are conditions upon the group receiving the balance. Therefore, we do not consider that there is a contractual right and as such do not consider that the escrow account is a financial asset.</p> <p>We consider that the escrow account should be accounted for as a contingent asset. This is therefore an immaterial error within the Council and group accounts.</p>

# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Land and Buildings – Council Housing – £196.7 million</b>	The Council owns 4,071 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 District Valuer to complete the valuation of these properties. The year end valuation of Council Housing was £196.7 million in the draft accounts, a net increase from the 2017/18 balance of £193.7 million.	<p>The total housing stock was revalued as at 31 March 2019 as part of the full valuation which is undertaken every five years. We have reviewed the basis of this valuation, challenging the assumptions made by the Valuer, assessing the information which was provided to them by the Council and then verifying that the values were correctly transferred into the Housing Revenue Account and the group financial statements.</p> <p>Overall we are satisfied with the approach taken and that the valuation of the Council Housing within the financial statements is not materially misstated.</p>	 Green
<b>Land and Buildings – Other – £496.0 million</b>	<p>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.</p> <p>The Council has engaged its in-house valuer to complete the valuation of properties as at 1 April 2018 in line with the rolling five yearly cyclical programme. Assets revalued during 2018/19 totalled £219.5 million.</p> <p>Management has requested that the in-house valuer considers the year end value of all properties and the potential valuation change in the assets revalued at 31 March 2019 to determine whether there has been a material change in the total value of these properties.</p>	<p>We have</p> <ul style="list-style-type: none"> <li>• Undertaken an assessment of management's experts</li> <li>• Reviewed the completeness and accuracy of the underlying information used to determine the estimate</li> <li>• Reviewed the impact of any changes to valuation method</li> <li>• Checked the consistency of estimate against near neighbours</li> <li>• Agreed the reasonableness of the decrease in estimate</li> <li>• Reviewed the adequacy of disclosure of estimate in the financial statements</li> </ul> <p>We have completed all the work as set out above with the exception of the assessment of material movement.</p> <p>At the time of writing this report we are still awaiting the information from the Valuer regarding the assessment of material movement as at 31 March 2019.</p>	

## 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 is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment																								
<p><b>Net pension liability – £490.6 million</b></p> <p>Net pension liabilities were revised by £11.8 million during the audit following consideration by your Actuary of the recent McCloud judgement, increasing the draft financial statement net pension liability from £478.8 million.</p> <p>At the time of drafting this report, as a consequence of the adjustment for the impact of the McCloud ruling, work in this area is still in-progress.</p>	<p>The Council's net pension liability at 31 March 2019 is £491 million (PY £420m) comprising the Shropshire Pension Fund Local Government scheme liability and unfunded defined benefit pension scheme obligations.</p> <p>The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>undertaken an assessment of management's expert</li> <li>reviewed and assessed the actuary's roll forward approach taken,</li> <li>used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary</li> </ul> <p>PwC were engaged by the NAO as the consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS). An indication of how Mercer's assumptions compare to others is set out below.</p> <table> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>2.40%</td><td>2.40% to 2.50%</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>2.20%</td><td>2.20% to 2.30%</td><td>●</td></tr> <tr> <td>Salary growth</td><td>3.70%</td><td>1.00% to 4.35% depending on scheme and time span</td><td>●</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>23.2 current 25.4 future</td><td>Range 22.2 to 26.3</td><td>●</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>26.4 current 28.7 future</td><td>Range 25.0 to 29.0</td><td>●</td></tr> </table> <p>They produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2019.</p> <p>We use this report to inform our assessment of the valuation of the pension fund liability in the Authority's accounts. We have compared the assumptions used by the Authority's actuary against industry benchmarks.</p> <p>We have reviewed the:</p> <ul style="list-style-type: none"> <li>completeness and accuracy of the underlying information used to determine the estimate</li> <li>impact of any changes to valuation method</li> <li>reasonableness of the Authority's share of LPS pension assets.</li> <li>reasonableness of increase/decrease in estimate</li> <li>adequacy of disclosure of estimate in the financial statements</li> </ul>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.40%	2.40% to 2.50%	●	Pension increase rate	2.20%	2.20% to 2.30%	●	Salary growth	3.70%	1.00% to 4.35% depending on scheme and time span	●	Life expectancy – Males currently aged 45 / 65	23.2 current 25.4 future	Range 22.2 to 26.3	●	Life expectancy – Females currently aged 45 / 65	26.4 current 28.7 future	Range 25.0 to 29.0	●	
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## 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 is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

## Summary of management's policy

## Audit Comments

### Net pension liability – Impact of McCloud Judgement and Guaranteed Minimum Pension (GMP)

#### McCloud ruling re age discrimination

In December 2018 the Court of Appeal looked at Employment Tribunal rulings in age discrimination cases brought by judges and firefighters. The Court ruled that there was age discrimination in both pension schemes where there was transitional protections given to scheme members. The Court of Appeal ruling applies to the Local Government Pension Scheme. Where transitional provisions are unlawful then those members who have been discriminated against need to be offered appropriate financial remedies to ensure they are in an equivalent position to the protected members.

At the time of drafting the accounts it was not clear whether the Government would be able to appeal to the Supreme Court and if so what the outcome would be. The draft accounts did not include any disclosures relating to these matters. On 27 June 2019 it was announced that leave to appeal had been denied.

Our view is that the McCloud judgement gives rise to a past service cost and liability within the scope of IAS 19 Employee Benefits as the ruling created a new obligation.

In June 2019 we wrote to all our local government clients setting out our views and recommending that bodies ask their actuaries to re-run their IAS19 reports reflecting the best estimate for restitution and providing sensitivity analysis for key assumptions.

The Council requested a revised actuarial report from Mercers, its actuary and this was received in early July 2019. Mercers estimated the potential increase in scheme liabilities as a result of this judgment to be approximately £5.9 million. They also restated estimated asset returns to actual, resulting in a total impact of £11.8 million.

The Council have adjusted their pensions disclosures following receipt of the revised report. Our work is still subject to review by the Engagement lead.

#### Guaranteed Minimum Pension (GMP)

In October 2018, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMPs) have had on members benefits. GMPs must be equalised between men and women and that past underpayments must be corrected. Actuaries have taken differing approaches to this issue.

Paying the equalisation increases through the LGPS increases the costs of the benefits and hence the liabilities for employers. This liability should be included in the net pension liability reported in the accounts. Mercer's have confirmed that they have included allowances up to 2021.

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Jersey Property Unit Trust (JPOT)</b>	<p>The Jersey Property Unit Trusts holds the three Shopping Centres in the centre of Shrewsbury.</p> <p>The Council owns a majority share of the units in a Jersey Property Unit Trust. The minority share is held by wholly owned subsidiary of the Council. The asset is held on the Balance Sheet at fair value through profit and loss and is valued annually.</p> <p>The Council and its subsidiary are the beneficial owners of the property. Income and expenditure accrues to the unitholders as it arises and it is presented as such within the financial statements.</p> <p>The Council revalued the three shopping centres as at 31 March 2019. This indicated a fall in value of £11.7 million resulting in an impairment being shown in both the Council's and the group financial statements.</p>	<p>We are:</p> <ul style="list-style-type: none"> <li>• Undertaking an assessment of the value as management's experts</li> <li>• Reviewing the completeness and accuracy of the underlying information used to determine the estimate</li> <li>• Reviewing reasonableness of the assumptions made by the valuer</li> <li>• Reviewing reasonableness of the decrease in estimate</li> <li>• Reviewing the adequacy of disclosure of estimate in the financial statements</li> </ul> <p>We have only recently received the full valuation reports and have not yet completed all the work as set out above.</p>	

## 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 is appropriate and key assumptions are neither optimistic or cautious

# 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

As part of the 2018/19 budget, the Council set a savings target of £15.5 million. It delivered £12.5 million of these savings across a number of services. For 2019/20 the Council has set an expenditure budget of £593.1 million, identifying a financial gap of 24.6 million between planned expenditure and resources. This is being closed by grants of £22.1 million and use of earmarked reserves of £2.5 million.

The Council's Financial Strategy (approved by Council on 28 February 2019) included savings totalling £18.490 million for 2019/20. Financial information on the 2019/20 budget monitoring position will be reported to Cabinet on 4 September 2019. Internal highlight reports for all savings proposals in excess of £0.2 million have been prepared in the meantime and suggest that around 50% of the savings have been delivered by 31 May 2019.

### Work performed

We have reviewed the 2019/20 budget and updated MTFS as part of our Value for Money Conclusion work. We have considered the key variables in the MTFS and the financial risks the Council is managing.

### Concluding comments

### Auditor commentary

ISA (UK) 570 requires the auditor to evaluate management's assessment of the entity's ability to continue as a going concern for at least 12 months from the date of the accounts.

The Council's arrangements to set a budget, taking into account its key funding sources and expenditure requirements are appropriate.

### Auditor commentary

- We did not identify any material uncertainties relating to going concern up to the end of July 2020.

### Auditor commentary

- There is no impact on our opinion from our management's going concern assessment.
- We are satisfied that there are no events or conditions identified in the course of the audit that cast significant doubt on the Council's ability to continue as a 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	<b>Matters in relation to fraud</b>	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.
②	<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
③	<b>Matters in relation to laws and regulations</b>	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	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council, which is included in the Committee papers.</li> </ul>
⑤	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to third party banks and other financial institutions and a number of other local authorities. This permission was granted and the requests were sent.</li> <li>There are a number of third party balances where it is more efficient to undertake alternative procedures, including long term debt with the PWLB where we received central notification of the balances and temporary borrowing where the cash had been repaid before the audit commenced.</li> </ul>
⑥	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
⑦	<b>Audit evidence and explanations/significant difficulties</b>	All information and explanations requested from management was provided.

# Other responsibilities under the Code

Issue	Commentary
① <b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D.</p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>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.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is not yet complete and the planned timescale for the work is to complete this by the end of July.</p>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of Shropshire Council in the audit opinion, as detailed in Appendix D. This is subject to the completion of the Whole of Government Accounts consolidation work.</p>



# Value for Money

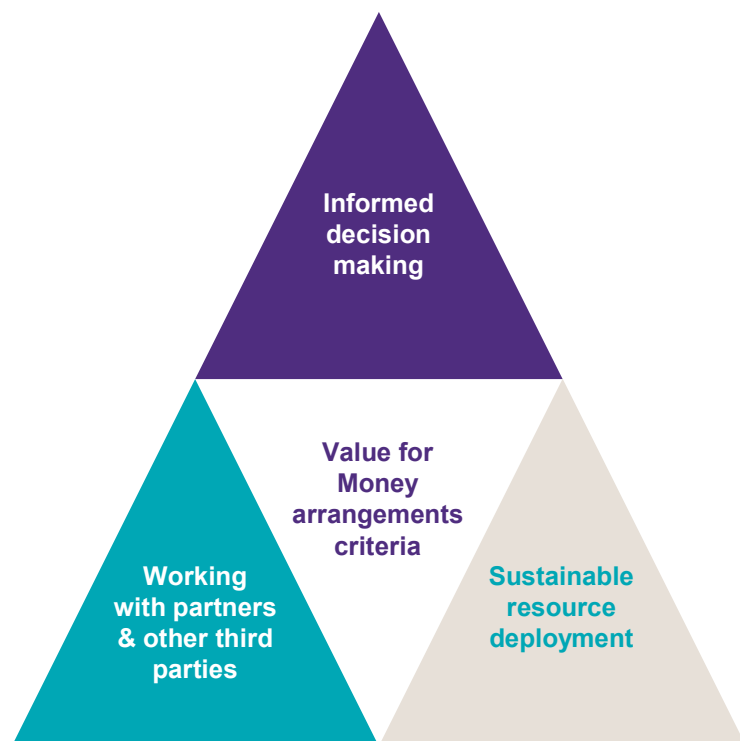
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in February 2019 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated February 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

Shropshire Council has had financial challenges for a number of years, but the scale of these and the financial gap has remained in the medium term, providing the Council with the ability to take measured action to maintain financial balance. This has been achieved while delivering well performing services for children, adult social care and large contracts such as waste management.

Based on the work we performed to address the significant risks, we concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

In summary, we have concluded that the Council delivered its 2018/19 budget and has adequate plans in place to deliver its 2019/20 budget. There are sufficient reserves to cover any financial shortfalls in savings or any unexpected reductions in income or funding in the short term. The Council's current financial strategy identifies a potential funding gap of £12.43 million in 2020/21, resulting in significant risks to financial sustainability for 2020/21 and beyond which the Council has already highlighted in its financial strategy (as approved by Council 28 February 2019).

If Members continue to make appropriate and calculated decisions now, particularly in relation to service reductions and income generation, they can ensure that the Council is well placed to take further opportunities as they arise going forward. The Council needs to ensure that it remains open to new ideas and has an agile mind-set embedded within its culture. But service cuts will be required unless the Government provides additional grant funding.

## Overall conclusion

Based on the work we performed to address the significant risk, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources in relation to financial sustainability, but there are significant risks in the medium-term to which the Council should give its immediate attention.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on the following pages. The text of our report, which confirms this can be found at Appendix D.

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and Conclusion
<p><b>1 Financial resilience over the medium to long term</b></p> <p>The Financial Strategy 2018/19 to 2022/23 identifies a funding gap of £59 million by 2022/23 driven predominantly by cuts in government funding. This funding gap could be partially closed through savings proposals identified across three main pillars of delivery; innovation, income generation and service cuts. Gross saving proposals of almost £43 million were identified, front-loaded to 2018/19 and 2019/20 with £29.2 million of gross revenue savings to be identified by 2019/20. This is a significant challenge for the Council.</p> <p>2018/19 in-year financial monitoring reports have identified growth in demand for key services increasing cost pressures. The 2018/19 budget includes unbudgeted pressures of £8.2 million with much of this pressure expected to impact on 2019/20 and beyond.</p>	<p><b>Response to the risk</b></p> <p>We will review the Council's Financial Strategy and financial reports to Cabinet, assessing the assumptions used. We will also consider the Council's delivery and any reported key variances from the Financial Strategy.</p> <p><b>Findings</b></p> <p>The Council's revenue position for 2018/19 delivered a net underspend of £0.167 million. Within this position there were pressures in Adult Social Care, Children's Services and Commercial Services, with Children's Services delivering the greatest overspend at £4.6 million. These overspends were offset by savings elsewhere, the majority of which came from Corporate budget savings of £2.9 million, but notable underspends were achieved in Workforce and Transformation and in Place.</p> <p>As part of its budget, the Council set a savings target of £15.5 million. It delivered £12.5 million of these savings across a number of services. Commercial Services and Children's Services had the most 'red-rated' savings, under delivering by £1.1 million and £1.0 million respectively. There was slippage against the delivery of savings plans in Commercial Services but there are governance processes in place to ensure that savings identified are robust. However, Officers need to assign more realistic timescales to the delivery of these savings to support the Council's overall financial position. Children's Services has seen tangible growth in underlying numbers of Looked After Children. Since 2018/19 it has appeared more likely that base budgets would need to be recast to reflect a 'new normal' rather than a short-term impact. The growth budget for 2019/20 and beyond has been adjusted to provide an estimate of this change in Looked After Children numbers and costs.</p> <p>For 2019/20 the Council has set an expenditure budget of £593.1 million, identifying a financial gap of 24.590 million between planned expenditure and resources. This is being closed by grants of £22.1 million and use of earmarked reserves of £2.5 million.</p> <p>The Council's Financial Strategy (approved by Council on 28 February 2019) included savings totalling £18.490 million for 2019/20. Financial information on the 2019/20 budget monitoring position will be reported to Cabinet on 4 September 2019. Internal highlight reports for all savings proposals in excess of £0.2 million have been prepared in the meantime and suggest that around 50% of the savings have been delivered by 31 May 2019.</p>

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings and Conclusion
1	<p><b>Financial resilience over the medium to long term – continued</b></p> <p>The Council approved a revised pay structure in May 2018 adding a further £5.3 million to the budget by 2019/20 with additional savings proposals identified to cover this cost.</p> <p>In total, £14.2 million of the original 2018/19 savings proposals have been removed or re-phased to later years and replaced by £8.3 million of new, alternative savings proposals supplemented by additional one-off funding and resources.</p>	<p>The financial gap for 2020/21 after grants of £3.1 million and use of reserves of £19.7 million is £12.4 million. This estimated gap assumes that over £20 million of government funding such as Rural Services Delivery Grant, Improved Better Care Funding and Social Care Grant will not continue beyond the current Multi-Year Settlement which ends in 2019/20. This coincides with the Government's stated proposals to implement a new 'Fair Funding' methodology from 1 April 2020, the implications of which are unknown. The funding gap, under the same assumptions, increases to £39.1 million in 2021/22, £46.8 million in 2022/23 and £57.2 million in 2023/24. Resources have been assumed to remain at current levels due to the continued uncertainty about the future local government funding arrangements. Expenditure is forecast to increase significantly, mainly as a result of pressures and demand growth within Adult Social Care and Children's Services. The Council does not have reserves to address these forecast financial gaps and so it is critical that further saving plans are identified and delivered to ensure that reserves are maintained at a financially sustainable level. The current financial strategy projects that reserves will have been fully depleted by 2020/21.</p> <p>General Fund reserves as at 31 March 2019 were £87.3 million, of which £71.7 million were earmarked for specific purposes. The General Fund balance of £15.536 million is below the Council's risk-based target of £20.4 million. We remain concerned that the Council is using non-recurrent funding from reserves to balance both its 2019/20 and 2020/21 budgets and fund recurrent expenditure.</p> <p>The Council's current financial position is a result of the decision making and speed of response to austerity by both members and senior officers over the past seven years. Cabinet has not made the scale of decisions to reduce and cut services required to deliver the savings required. Instead focusing on a series of strategies which have been 'refreshed' each year and provided several changes in direction. Whilst previous financial savings have delivered service redesign and avoided a top slicing approach to budget reductions, the Council has not yet delivered the recurrent savings required to deliver a financially sustainable position in the medium term. The current trajectory shows an increasing level of financial pressure that needs to be responded to.</p> <p>The Council is continuing to develop its commercial strategy which is not yet delivering income in line with the projections within the medium-term financial strategy. Tackling the development of robust, deliverable savings, as well as driving further income generation remains a top priority for the Council. Officers continue to present savings opportunities which require service delivery to be cut. These are generally only actioned in part meaning that other savings need to be identified and the impact of cuts is felt by an increased number of the Council's services. With the most significant cost pressures being within statutory mandatory services, the Council is limited as to where savings can be made. Members need to be clear about the financial implications of partial implementation of savings proposals and recognise that they need to make difficult and unpalatable decisions to maintain the Council's financial sustainability.</p>
	<p><b>Conclusion</b></p>	<p>The Council's financial stability going forward is highly dependent on the factors set out in our findings. The Council will need to monitor decisions from the Government with regard to funding and respond accordingly. As well as responding to any Government decisions it also needs to ensure that it makes appropriate decisions with regard to Council Tax and ensures that its own income generation schemes and savings plans are delivered in full.</p>

# 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 in Appendix C

## 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.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Certification of Housing benefit subsidy claim	13,300	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit of £103,061 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.
Certification of Teachers' pension Return	4,800	Self-Interest (because this is a recurring fee)	See above.
Certification of Housing capital receipts grant	3,000	Self-Interest (because this is a recurring fee)	See above.
<b>Non-audit related</b>			
CFO Insights licence	10,000	Self-Interest (because this is a recurring fee)	See above




These services are consistent with the group'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.

# Action plan

We have identified the following 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 2019/20 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 Recommendation	Management response
1		<b>Value for Money Conclusion</b> The Council will need to monitor decisions from the Government about its future funding and respond accordingly. As well as responding to any Government decisions it also needs to ensure that it makes appropriate decisions about Council Tax increases and ensures that income generation schemes and savings plans are delivered in full.	Discussions with Members, local MPs and Government are on-going in relation to Government funding levels, short-term grants and the implications of Fair Funding and Business Rates Retention. Maximum Council Tax increases are already factored in and discussions with Members about the implications of higher increases on-going. All savings plans are being reviewed and highlight reports put in place to monitor activity as well as financial implications.
2		<b>Financial Statements Audit</b>	

## Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

# 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 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
1 Restatement of pension liability	Deficit on provision of services £5,855 Dr  Other comprehensive income and expenditure £5,964 Dr	Net Pension Liability £11,819 Cr	£11,819

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Note 15 – Capital commitments</b>	<ul style="list-style-type: none"> <li>Audit testing identified that incorrect figures were included in the note for the Tannery.</li> </ul>	<ul style="list-style-type: none"> <li>Amend the figures</li> </ul> <b>Management response</b> <ul style="list-style-type: none"> <li>Updated figures now included in the note.</li> </ul>	✓
<b>Various minor disclosure and clerical points</b>	<ul style="list-style-type: none"> <li>As would be expected in the first draft of any large document, a number of other disclosure and clerical issues were noted.</li> </ul>	<ul style="list-style-type: none"> <li>These issues are not considered sufficiently significant to warrant attention of the committee. These were individually discussed with the finance team and a satisfactory position was mutually agreed.</li> </ul> <b>Management response</b> <ul style="list-style-type: none"> <li>Updated figures and disclosures in the accounts where required.</li> </ul>	✓

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<b>1 Single entity</b> In 2017/18, the Council overstated the shopping centres in the accounts by £2.9 million. The Council's accounting treatment also had the effect of overstating income received from the JPUT. The impact of this on 2018/19 is not material and relates to the inclusion as a short term investment of an amount relating to future rental income guarantee for void units.		DR Deferred Income £1.4m  Cr Short Term Investment £1.4m		The Council believe that the investment value is in line with the market value of the shopping centre including a guaranteed income stream to reflect that we bought a functioning shopping centre, therefore it is not overstated.  This treatment is in line with previous external advice received.
<b>Overall impact</b>	<b>£nil</b>	<b>£nil</b>	<b>£nil</b>	



# Audit Adjustments

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	<b>Single entity</b> Cost value of the shopping centres in the Council's accounts is overstated by £2.9 million. The Council's accounting treatment also has the effect of overstating income received from the JPUT. The impact of this is not material. However, impact on the value of the unquoted equity investment is above trivial and therefore we are required to report to the committee.	£nil	DR Deferred Income £2,400k Dr Provision £500k Cr Long Term Investment £2,900k	£nil	<b>Management response</b> The Council believe that the investment value is in line with the market value of the shopping centre including a guaranteed income stream to reflect that we bought a functioning shopping centre, therefore it is not overstated. This treatment is in line with external advice received.
	<b>Overall impact</b>	<b>£nil</b>	<b>£0</b>	<b>£nil</b>	
2	<b>Group accounts</b> The entity has accounted for £2.7 million of goodwill within its group accounts to account for the variance between the £52.2 million deemed purchase price and the fair value of £49.5 million which the Council has used for the shopping centre assets. It is our view that, as the cost price is overstated, the goodwill should be adjusted out of the accounts.	£nil	DR Long Term Investment £2,775k CR Goodwill £2,775k	£nil	<b>Management response</b> As above, the Council does not believe that the cost price has been overstated and so the inclusion of goodwill is appropriate to the JPUT's accounts which have been consolidated in Group Accounts. Again, this treatment is in line with external advice received.
	<b>Overall impact</b>	<b>£nil</b>	<b>£0</b>	<b>£nil</b>	

# Fees

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

<b>Audit Fees</b>	<b>£</b>
<b>Council Audit – fee proposed per fee letter</b>	103,061
<b>Fee variation</b>	
Pensions and PPE valuation - The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 and PPE valuations needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 and PPE valuations this year.	6,000
Assessing the impact of the McCloud ruling - The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December and the Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have carried out additional work considering the impact on the financial statements along with any audit reporting requirements.	3,000
JPUT - additional audit work relating to the disclosure and valuation of the JPUT	TBC
<b>Final fee – 2018/19 audit</b>	TBC
<b>Final fee – 2017/18 audit</b>	£133,845

The fees proposed audit fee is included within the 2018/19 financial statements. Any additional fees will be shown as audit expenditure in the 2019/20 financial statements.

The proposed fee variation has been discussed with the Director of Finance, Governance and Assurance but not agreed. It is also subject to agreement with PSAA Limited.

## Non Audit Fees

<b>Fees for other services</b>	<b>Fees £'000</b>
<b>Audit related services:</b>	
• Certification of Housing Benefits Subsidy Claim	13,445
• Certification of Teachers Pension Authority claim	4,800
• Certification of Housing Capital Receipts Grant	3,000
<b>Non-audit services:</b>	
• CFO Insights licence	10,000

# Audit opinion

**We anticipate we will provide the group with an unmodified audit report**

## Independent auditor's report to the members of Shropshire Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Shropshire Council (the 'Authority') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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. 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 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Director of Finance, Governance and Assurance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance, Governance and Assurance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Director of Finance, Governance and Assurance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the financial statements and, our auditor's report on the pension fund financial statements. 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.

In connection with our audit of the financial statements, 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 of the Authority 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 or a material misstatement of the other information. 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 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 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE 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.

# Audit opinion

## Opinion on other matter 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 and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement 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, the [Chief Financial Officer] and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page(s) x to x, 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 Director of Finance, Governance and Assurance. The Director of Finance, Governance and Assurance 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the [Chief Financial Officer] 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 [Chief Financial Officer] is responsible for assessing the Authority'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 there is an intention by government that the services provided by the Authority will no longer be provided. The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## 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.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

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

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

## 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, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

# Audit opinion

## **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 have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## **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 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 to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019.

We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

## **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 43 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]

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

Birmingham

[Date]

