

Shropshire Council Audit Progress Report and Sector Update

**Audit years ending 31 March 2021 and
31 March 2022**

11th February 2022



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Introduction

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Summary of Progress at February 2022

Financial Statements Audit 2020/21– Delay in audit completion

We undertook our initial planning for the 2020/21 audit in February 2021, the results of which formed the basis for our Audit Plan which was reported to the Audit Committee on 30th July 2021. Our planning work started later than last year as a result of the pandemic .

We received draft financial statements on 31st July 2021 and we began our audit work on your draft financial statements on 2nd August 2021.

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to the first working day of August. In 2020 this date was pushed back to 31st August. The date by which authorities are required to publish audited financial statements is 30th September. In 2020 this date was pushed back to 30th November.

We have substantially completed our audit of your financial statements. There are however a couple of areas where we are still seeking reasonable and appropriate audit evidence and to resolve final queries and one material audit finding to bring to your attention since the last Audit Committee.

Gross Internal Areas (GIAs)

Evidence to support property Gross Internal Areas (GIA's) was an outstanding item reported to the November Audit Committee. This evidence has now been provided and our audit of this information is complete.

The evidence provided highlighted that the GIA's for 4 assets in particular provided to the valuer were not accurate. The valuer has since updated the valuation of the assets identified resulting in a £12.1m decrease in the value of assets held by the Council. This adjustment has been made to the financial statements. As our testing is completed on a sample basis any unadjusted errors identified are extrapolated across the untested population. This indicates a further potential misstatement of £4.5m which is an extrapolated misstatement and as such is not adjusted for in the financial statements.

Work in progress

At the time of writing the following items remain outstanding:

- **Operating expenditure (Controc system payments)** – As part of our testing of the Council's expenditure we have selected a sample of items which relate to the Controc system. Controc administers payments to care providers of approximately £125m for adult services. Once payments have been approved within Controc they are posted to the General Ledger. Internal audit has reviewed the reconciliation between Controc and the General Ledger and we have not identified any matters in that respect. Our testing is focussed on the evidence underpinning the approvals within Controc itself, specifically evidence to support both the Occurrence and Accuracy of the sample items selected for testing. Despite several attempts, including officers contacting care homes directly we have not yet been provided with appropriate evidence to support the transactions selected. On this basis we are currently unable to conclude on this area of the audit.
- **Exit packages** – Our work in this area continues. We have met with the S151 officer and Monitoring Officer in order to discuss this further.

Summary of Progress at February 2022

Accounts closedown procedures. This includes:

- Update our assessment of subsequent events up to the date of audit opinion being issued
- Receipt of the Council's WGA pack and completion of our procedures thereon. (At the time of writing WGA instructions have not yet been released)
- Obtaining and reviewing the management letter of representation
- Updating our post balance sheet events review, to the date of signing the opinion
- Final manager and engagement lead review of the financial statements and audit procedures
- Update and re-issue Audit Findings Report to Those Charged With Governance

Audit Findings Report

Upon completion of our audit work we will re-issue a revised Audit Findings report. We are meeting regularly with Finance Officers to ensure audit queries are resolved as soon as possible. This will enable us to move forward with the 2021/22 financial statements audit programme of work.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

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

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements.

Progress at February 2022 (continued)

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2020/21 claim began in September 2020 with DWP extending the deadline for completion to 28th February 2022. Our work in this area is now complete. We issued our report on 1st February 2022. Our report was qualified but the nature of the findings are consistent with those found elsewhere in the sector.

We certify the Authority's Annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2020/21 return began in October and is now substantially complete. We do have some outstanding queries which need to be resolved to enable us to complete our work. These have been communicated to the Council but at the time of writing we have not received responses to these requests.

We also certify the Authority's Annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Ministry of Housing, Communities & Local Government, now the Department for Levelling Up, Housing and Communities. The certification work for the 2020/21 return began in December with our initial information request. We have not yet received this information and as such we are unable to progress our work.

Meetings

We met with Finance Officers in March, June, September and December as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and the clearance of outstanding audit queries.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers will be invited to attend our Financial Reporting Workshop in January and February 2022, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 and 2019/20 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.</p>	July 2021	Complete
<p>Progress report</p> <p>We will report to you the progress made to date</p>	September 2021 December 2021 February 2022	Complete
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the Audit Committee.</p>	October 2021, deferred to December 2021	Complete
<p>Auditors Report</p> <p>This is the opinion on your financial statements.</p>	December 2021, deferred to March 2022	Not yet due
<p>Auditor's Annual Report</p> <p>This Report communicates the key issues arising from our Value for Money work.</p>	December 2021, deferred to February 2022	Not yet due
2020/21 Audit-related Deliverables	Planned Date	Status
<p>Teachers Pensions Scheme – certification</p> <p>This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform. Further to review we are waiting for a response from the Council regarding outstanding queries</p>	30 November 2021, deferred to March 2022	Overdue
<p>Housing Benefit Subsidy – certification</p> <p>This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	31 January 2022 (DWP deadline moved to 28 February 2022)	Complete
<p>Pooling of housing capital receipts - certification</p> <p>This is the report we submit to Ministry of Housing, Communities and Local Government based upon the mandated agreed upon procedures we are required to perform – we have not received information to progress our work</p>	4 February 2022, deferred to March 2022	Overdue

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Supporting local economic growth: Department for Levelling up, Housing & Communities

The NAO has published its report Supporting local economic growth which considers lessons the Department for Levelling Up, Housing & Communities (the Department) has learned from implementing local growth policies, and how it has applied them.

It examines how it has applied these lessons to the one-year UK Community Renewal Fund and the following place-based interventions:

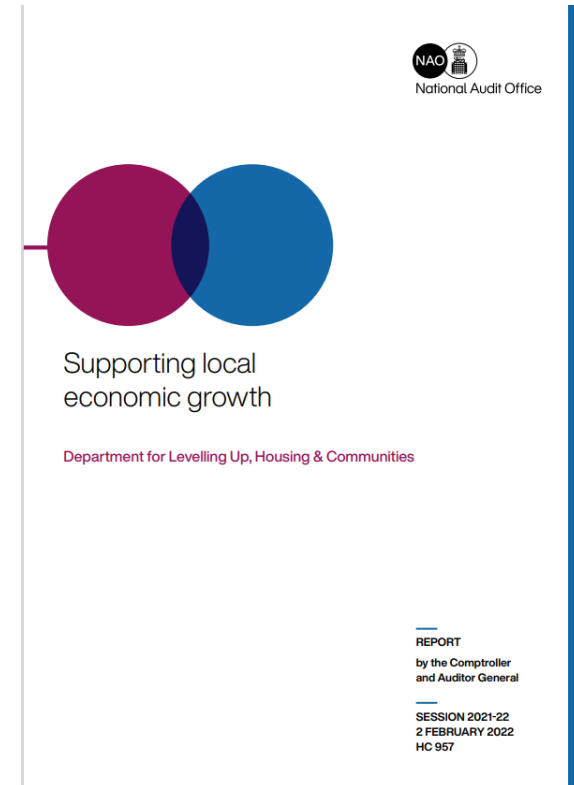
- Levelling Up Fund;
- UK Shared Prosperity Fund;
- Towns Fund; and
- Freeports

The NAO comment *‘the Department for Levelling Up, Housing and Communities has not consistently evaluated its past interventions to stimulate local economies, so it doesn’t know whether billions of pounds of public spending has had the impact intended.*

With its focus on levelling up, it is vital that the Department puts robust evaluation arrangements in place for its new schemes to promote local growth’

The report can be found here:

[Supporting local economic growth \(nao.org.uk\)](https://nao.org.uk)



Consultation - Changes to the capital framework: Minimum Revenue Provision

The Department for Levelling Up, Housing and Communities consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.

Local authorities can freely borrow and invest under legislation and guidance known as the Prudential Framework.

Notwithstanding these freedoms, authorities must make sure borrowing is affordable. Where capital expenditure is financed by borrowing, authorities have a statutory duty to set aside revenue funds to repay the principle of the debt; this is known as Minimum Revenue Provision (MRP).

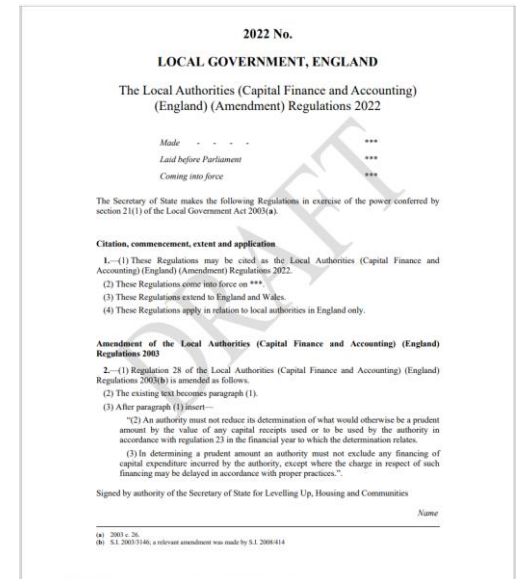
The government is proposing to make changes to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (the 2003 Regulations) to address the issue that some authorities are not adequately complying with the duty to make Minimum Revenue Provision.

The behaviours the government is seeking to address are:

- -Local authorities using sales from assets (capital receipts) in place of a charge to revenue. Authorities may use capital receipts to reduce overall debt and thereby reduce MRP through the calculation. Capital receipts may not, however, be used in lieu of a prudent charge to revenue.
- Local authorities are not charging MRP on debt related to certain assets. The evidence is that while some authorities are making MRP for commercial investments funded by borrowing, some are still not paying MRP in relation to borrowing associated with investment assets or capital loans. The statutory guidance is clear that financing for investment assets and capital loans requires provision to be made.

A link to the consultation and draft guidance can be found here:

[Consultation on changes to the capital framework: Minimum Revenue Provision - GOV.UK](https://www.gov.uk/consultation-on-changes-to-the-capital-framework-minimum-revenue-provision)
[www.gov.uk]





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