

# Shropshire Council Audit Progress Report and Sector Update

**Years ending 31 March 2021  
& 31 March 2022**

July 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](http://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 July 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 30<sup>th</sup> July 2021. We received draft financial statements on 31<sup>st</sup> July 2021 and we began our audit work on your draft financial statements on 2<sup>nd</sup> August 2021.

When we reported to you in February 2022 the key area of financial statements audit work that was outstanding was in respect of our testing of social care payments made through the Council's Controc system. We have now successfully completed our work in that area.

Subsequent to that there has been an emerging issue in the sector in respect of infrastructure assets. Infrastructure assets include items such as roads, highways, streetlighting and street furniture. In 2020/21 the Council spent circa £30m on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £365m which is over 40 times materiality. In accordance with the CIPFA Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements there are two key risks we are required to address:

- The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets.
- The risk that the presentation of the PP&E note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced.

CIPFA has established a task and finish group to address an issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure. We have held preliminary discussions with Council Officers but are currently waiting for the outcomes of the CIPFA Urgent consultation on proposed changes to the Code before we can complete our work for 2020/21.

The other area where working is progressing is in respect of exit packages. We have met with officers and sought legal advice. Our work in this area is reaching its conclusion and is subject to final review and consideration by the Engagement Lead. We will discuss our conclusions with the S151 officer and Monitoring Officer and report our findings to the Audit Committee as TCWG.

**Upon conclusion of the above our accounts closedown procedures will need to be completed. These include:**

- o Update our assessment of subsequent events up to the date of audit opinion being issued
- o Final check of amendments made to the financial statements
- o Receipt of the Council's WGA pack and completion of our procedures thereon. Guidance has now been issued and this work will be completed in August 2022.
- o Obtaining and reviewing the management letter of representation
- o Updating our post balance sheet events review, to the date of signing the opinion
- o Final manager and engagement lead review of the financial statements and audit procedures
- o 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.

# Summary of Progress at July 2022

## 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.

## 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 28<sup>th</sup> February 2022. Our work in this area is now complete. We issued our report on 1<sup>st</sup> 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 are working through responses provide by the Council.

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.

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# Summary of Progress at July 2022

## Meetings

We met with Finance Officers in June 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 attended our financial Reporting Workshop in 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.

# Summary of Progress at July 2022

## Materiality

### The concept of materiality

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.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Financial Statements Audit 2021/22

Although we have started our planning work we are not at a stage where we can formally confirm the significant risks that we will be auditing. However, the sections below indicate likely areas that we will expect our work to focus on.

### Presumed significant risks

ISA (UK) 240 includes two presumed risks as follows:

- Revenue recognition may be misstated due to the improper recognition of revenue. This is a rebuttable risk if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We will consider the risk factors set out in ISA240 and the nature of the revenue streams at the Council to determine whether there is a risk of fraud from revenue recognition. We will be documenting the business processes of these streams as part of our planning procedures to help inform our consideration of the revenue recognition risk. It is expected that we will be able to rebut this risk
- The risk of management over-ride of controls is present in all entities. The need to achieve a particular financial outturn could potentially place management under undue pressure in terms of how they report performance.

### Other significant risks at time of writing

**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 (£992 million in the Council's balance sheet as at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions. It is expected that the valuation of land and buildings will continue to be identified as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

**Valuation of net pension liability** - The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£541m in the Council's balance sheet as at 31 March 2021) and the sensitivity of the estimate to changes in key assumptions. It is expected that the net pension liability will continue to be identified as a significant risk, which was one of the most significant assessed risks of material misstatement.

# Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<p><b>Audit Plan</b></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><b>Progress report</b></p> <p>We will report to you the progress made to date</p>	September 2021 December 2021 February 2022	Complete
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the Audit Committee.</p>	October 2021, deferred to December 2021	Complete
<p><b>Auditors Report</b></p> <p>This is the opinion on your financial statements.</p>	December 2021, deferred to September 2022	Not yet due
<p><b>Auditor's Annual Report</b></p> <p>This Report communicates the key issues arising from our Value for Money work.</p>	December 2021, deferred to September 2022	Not yet due

2020/21 Audit-related Deliverables	Planned Date	Status
<p><b>Teachers Pensions Scheme – certification</b></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><b>Housing Benefit Subsidy – certification</b></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><b>Pooling of housing capital receipts - certification</b></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

# Prudential Code and Treasury Management Code – CIPFA

On 20 December CIPFA published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code).

CIPFA commented “These two statutory and professional codes are important regulatory elements of the capital finance framework in which local authorities operate. Local authorities are required by regulation to ‘have regard to’ their provisions. These two codes have been published a principles-based consultation from February to April, which was followed by a second consultation on the detailed changes to the code from September to mid-November.

The updated Prudential Code includes some substantive changes. Most notably, the provisions in Code which present the approach to borrowing in advance of need in order to profit from additional sums borrowed have been strengthened. Additionally, the relevant parts of Code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds.”

The updated Prudential Code removes the "advance of need" terminology and emphasises the legislative basis for borrowing, namely that a local authority can borrow and invest for any legislative function and/or for the prudent management of their financial affairs.

The examples listed in the Code of legitimate prudential borrowing are:

- Financing capital expenditure primarily related to the delivery of a local authority’s functions;
- Temporary management of cash flow within the context of a balanced budget;
- Securing affordability by removing exposure to future interest rate rises; or
- Refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.



# Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

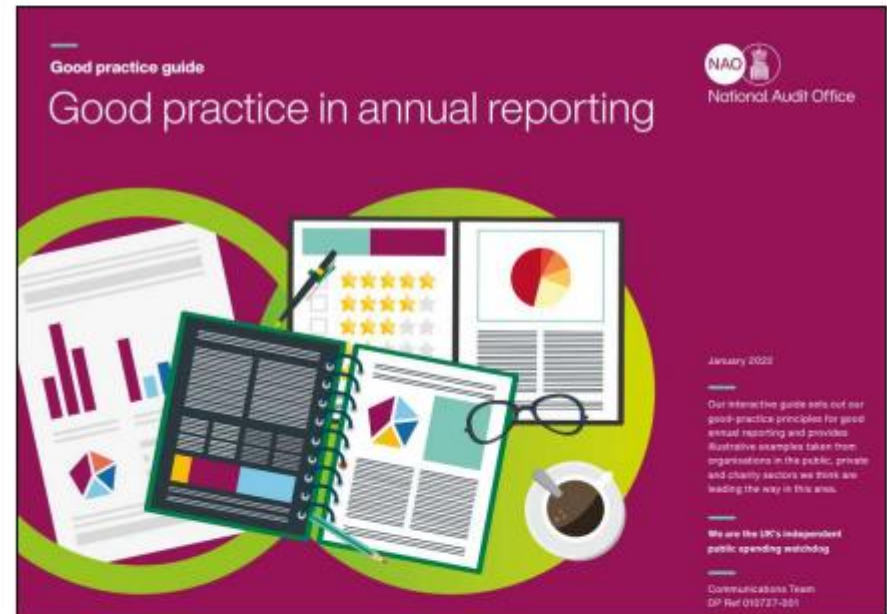
The NAO comment that the guide sets out “good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable.”

The NAO further comment “The best annual reports we have seen use these principles to tell the “story” of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation’s strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers’ money that has been spent to deliver the outcomes the organisation seeks to achieve.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:

[Good practice in annual reporting - National Audit Office \[NAO\] Report](#)



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