

Shropshire Council audit plan

Year ending 31 March 2022

September 2022



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Financial position

The whole local government sector faces pressure owing to cuts, funding pressures, inflation and rising energy costs, alongside growing demand for council services. An example of this increase in demand being the number of children in care in April 2022 was 53 per cent higher than in April 2020 and is up 21% year on year.

The Council's 2021/22 outturn report presented to Cabinet on 6th July 2022 is an overspend of £2.505m, this was an improvement of £1.841m when compared with projections made at Quarter 3. 62% of the Council's £9.8 million savings required have been delivered for 2021/22. £3.750m of savings have not been achieved with £2.039m being carried forward into 2022/23.

The Council's first quarterly monitoring report of 2022/23 highlighted that inflation is adding an extra £5 million to the costs of running services; while extra demand for council services, which is also predicted to increase further as more people face cost of living pressures, is adding almost another £7 million. The Council is also no longer receiving any money from Government to offset the impacts of the pandemic.

This, coupled with growing costs in children's social care in particular, is forcing the predicted overspend on 2022/23 up between its best case scenario of £4.1m and worst case of £18.8 million.

The Council is continually reviewing all budget options in light of these unprecedented financial and operational pressures.

Capital strategy

In 2021/22 the Council's capital programme was reduced significantly from £150.1 million to £83.6 million (reduction of £66.5 million). The Council has reprofiled this expenditure to reflect latest information and the anticipated delivery of capital schemes. The current capital programme is heavily reliant on the Council generating capital receipts to finance the capital programme. The Council has recognised and reported a high level of risk in these projections as they are subject to changes in property and land values, the actions of potential buyers and being granted planning permission on sites. risk of slippage.

Recovery from Covid 19 pandemic

The Council has received central funding and has been administering support grants in 2021/22. The majority of funding is not ringfenced and can be recognised as income when received. Additionally, the Council has responded well to remote working and has been agile in delivering services, diverting office staff to frontline services where required. Internal controls have not changed significantly in relation to the business processes that feed into the financial statements. Management continue to factor in COVID-19 income and expenditure into budgets and cash flow forecasts.

It continues to have a grip on costs arising, as well as income received, that is both directly and indirectly related to COVID-19, which will be key in any determining any future budget strategies and service delivery decisions, as society learns to live with the ongoing impacts of the pandemic.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been discussed with the S151 Officer.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit Committee updates.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Shropshire Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Shropshire Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of those subsidiaries it considers material. Consideration of Group components can be seen on page 8.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land and buildings
- Valuation of net pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £9.0 million (PY £9.0 million) for the group and £8.9m (PY £8.8m) for the Council, which equates to 1.4% of your prior year] gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £450k (PY £435k).

Value for Money arrangements

We have not yet undertaken our planning assessment pending completion of our 2020/21 audit, and therefore cannot formally confirm the risks we will be considering.

We will report our 2020/21 Value for Money findings as part of the Auditor's Annual Report. Following this we will report the results of our planning considerations for 2021/22 to the Audit Committee.

Audit logistics

Our planning work has taken place during March and April and our final visit started 1st July 2022. Draft accounts were provided on 21st July 2022. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit has not yet been confirmed (PY: £167k) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Shropshire Council	Yes		See section 4 of this report	Full scope UK statutory audit performed by Grant Thornton UK LLP
Shropshire Towns and Rural (STaR) Housing Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
West Mercia Energy	No		None	Analytical review performed by Grant Thornton UK LLP.
Cornovii Developments Limited	No		None	Analytical review performed by Grant Thornton UK LLP.
West Mercia Energy (Pension)	No		None	Analytical review performed by Grant Thornton UK LLP.
SCC No 1 Limited	No		None	Analytical review performed by Grant Thornton UK LLP

Key changes within the group:

We are not aware of any significant changes during 2021/22. We will however report changes should any be identified.

Audit scope

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

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Presumed risk of fraud in revenue recognition</p> <p>ISA (UK) 240</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>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"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Shropshire Council and its subsidiaries mean that all forms of fraud are seen as unacceptable. <p>Therefore, we do not consider this to be a significant risk for the Council.</p>	<p>Notwithstanding that we have rebutted this risk, we will still undertake a significant level of work on the Council's revenue streams, as they are material. We will:</p> <p>Accounting policies and systems</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policies for recognition of income for its various income streams and compliance with the CIPFA Code • update our understanding of the Council's business processes associated with accounting for income <p>Fees, charges and other service income</p> <ul style="list-style-type: none"> • Agree, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. <p>Taxation and non-specific grant income</p> <ul style="list-style-type: none"> • Income for national non-domestic rates and council tax is predictable and therefore we will conduct substantive analytical procedures • For other grants we will sample test items back to supporting information and subsequent receipt, considering accounting treatment where appropriate <p>We will also design tests to address the risk that income has been understated, by not being recognised in the current financial year .</p>
<p>Risk of fraud related to expenditure recognition</p> <p>PAF Practice Note 10</p>	<p>In line with the Public Audit forum Practice Note 10 (PN10), in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatement due to fraud related to revenue recognition.</p> <p>Having considered the nature of the expenditure of the expenditure streams of Shropshire Council, and on the same basis as set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.</p>	<p>Notwithstanding that we have rebutted this risk, we will still undertake a significant level of work on the Council's expenditure streams, as they are material. We will:</p> <p>Expenditure</p> <ul style="list-style-type: none"> • update our understanding of the Council's business processes associated with accounting for expenditure • evaluate the Council's accounting policies for recognition of expenditure for its various material expenditure streams and compliance with the CIPFA Code • agree, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence <p>We will also design tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year – see page 12</p>

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Management over-ride of controls</p> <p>Risk relates to Group and Council</p>	<p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</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 of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the design effectiveness of management controls over journals; • Analyse the journals listing and determine the criteria for selecting high risk unusual journals; • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • Gain on understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence: and • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
<p>Valuation of land and buildings [PPE]</p> <p>Risk relates to Group and Council</p>	<p>The Council re-values its land and buildings on a five-yearly basis. Assets were subject to a full or Desktop valuation in 2021/22. In the intervening years, to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the Authority carries out a desktop revaluation/ requests a desktop valuation from its valuation expert to ensure that there is no material difference.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£405m relating to Other land and Buildings and £224m relating to Council Dwellings) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings as significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluate the competence, capabilities and objectivity of the valuation expert; • Write to the value to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met; • Challenge the information and assumptions used by the value to assess completeness and consistency with our understanding; • Engage our own valuer to assess the instructions issued by the Council to its valuer, the scope of the Council's valuer's work, the Council's valuer's reports and the assumptions that underpin the valuations; • Test revaluations made during the year to see if they had been input correctly into the Council's asset register; • Evaluate the assumptions made by management for those assets not revalued during the year end how management have satisfied themselves that these are not materially different from current value at year end . Such procedures will also be required in relation to those assets which have been valued during the year but not as at the year-end, as we will need to be assured that there is no material difference between the valuation date and the balance sheet date.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of the pension fund net liability</p> <p>Risk relates to Group and Council</p>	<p>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.</p> <p>The pension fund liability is considered a significant estimate due to the size of the numbers involved (£507m at 31 March 2002 and £532m as at 31 March 2021) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We 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 misstatements.</p>	<p>We will:</p> <ul style="list-style-type: none"> Update 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; Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability Test 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; Undertake 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; and Obtain assurances from the auditor of Shropshire 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

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Operating Expenses</p> <p>Risk relates to Group and Council</p>	<p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses.</p> <p>Management uses judgement to estimate accruals of un-invoiced costs. We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.</p> <p>We are also applying specific focus to the occurrence of expenditure and existence of payables, to mitigate the risk that expenditure has been overstated to take advantage of the additional funding which has been available to the Council during the 2021/22 financial year as a result of the pandemic.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness • gain an understanding of the Council's system for accounting for non-pay expenditure • test a sample of balances included within trade and other payables • test a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period • test a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period.
<p>Infrastructure assets</p> <p>Risk relates to Group and Council</p>	<p>The CIPFA Code of Practice on Local Authority Accounting prescribes the accounting treatment and disclosure requirements for infrastructure assets. The code requires infrastructure to be reported in the Balance Sheet at historic cost less accumulated depreciation and impairment. The code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. These requirements of the Code derived from IAS 16 property, Plant and Equipment.</p> <p>The Council has material infrastructure assets and there could therefore be a potential risk of material misstatement related to this balance.</p>	<p>In order to be able to conclude whether there is a risk of material misstatement we will:</p> <ul style="list-style-type: none"> • Assess risks of material misstatement related to infrastructure assets • Update our understanding of the process to explain the Council's current approach to capitalisation, derecognition and depreciation of infrastructure assets and how it complies with the Council's fixed asset register to confirm that the processes are being applied in practice • For a sample of assets or additional to infrastructure, we will enquire as to the basis of the asset life and conclude on whether this is reasonable and correctly factored into depreciation calculations.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

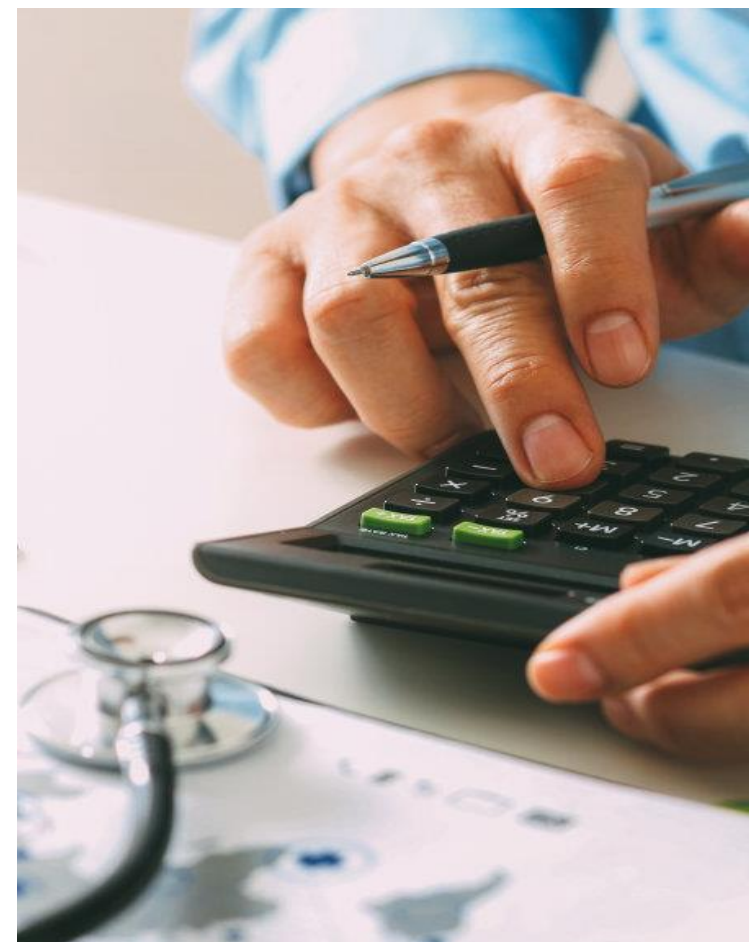
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Valuations of investment properties
- Estimated Remaining Useful Lives of PP&E
- Depreciation
- Significant non-invoice based accruals
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Impairment of receivables – Collection fund receivables

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.





Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of management via our Informing the Risk Assessment report which we use as a vehicle for updating our understanding of the Council's control framework. We will present this as a separate report and ask the committee to review and approve the report to ensure we have a consistent understanding of the Council's arrangements.

We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.



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.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £9,000k (PY £8,700k) for the group and £8,900k (PY £8,600k) for the Council, which equates to 1.4% of your forecast gross expenditure for the year. We consider the disclosures of senior officer remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts. As such, we have not set a level of materiality in relation to senior officer remuneration as disclosures will be tested fully.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £450k (PY £435k) for both the Council and the group.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

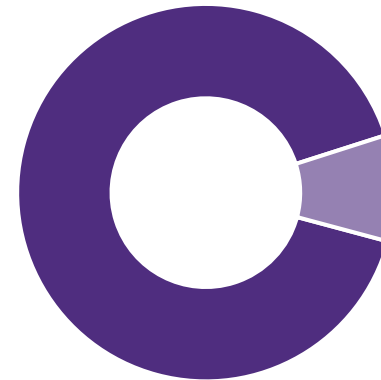
Prior year gross operating costs

£644m group

(PY: £621m)

£645m Council

(PY: £620m)



Materiality

£9,000k

group financial statements materiality

(PY: £8,700k)

£8,900k

Council financial statements materiality

(PY: £8,600k)


£450k

Misstatements reported to the Audit Committee

(PY: £435k)

Audit logistics and team


Planning and
risk assessment


Interim audit
April 2022


Audit
Committee
June 2022

Interim Progress
Report


Audit
Committee
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Audit Plan


Year end audit
August – November 2022


Audit
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Audit Findings
Report and Audit
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Audit
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Auditor's
Annual
Report



Grant Patterson, Key Audit Partner

Grant leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained with a commitment to add value to the Council.



Mary Wren, Audit Manager

As the engagement manager, Mary is responsible for overseeing delivery of our service and managing the audit process in respect of the Council. She will be in hand to answer any queries, whilst ensuring an efficient audit process.

Lya Hall, Audit Incharge

Lya will work with relevant officers and our operational team to ensure the smooth planning and delivery of the audits. She will oversee the day to day running of the audit and discuss any issues with you during the audit process as well as any questions you may have throughout the year.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for Shropshire Council to begin with effect from 2018/19. The fee agreed in the contract (scale fee) was £103,061. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Across all sectors and firms, the 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, in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. [We have engaged an audit expert to improve the level of assurance we require for {add details e.g. property valuations estimates}, which has been included in our proposed audit fee.] Our proposed work and fee for 2021/22, as set out below, is detailed overleaf and has been discussed with the Director of Finance.

Audit fees	Proposed fee 2020/21	Actual fee 2020/21	Proposed fee 2021/22
Council Audit	£167,061	£167,061	£166,811*
Audit of subsidiary company - Shropshire Towns and Rural (STaR) Housing Ltd	£19,000	£19,000	£19,500
Total audit fees (excluding VAT)	£186,061	£186,061	£186,311
Non-audit services (page 18)	£31,100	£31,100	£34,700
TOTAL	£216,061	£216,061	£221,011

There are a number of objections in progress relating to the Council. Fees are charged on a time basis plus any costs for professional advice sought by us, for example legal costs. These will be reported as part of our ongoing reporting to the Audit Committee.

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.
- * currently our fee anticipates being able to deliver the audit either on site or in a hybrid manner involving some on-site work. If we have to deliver the audit fully remotely our experience is that this takes longer. We would be proposing a further fee variation of £10,000 in these circumstances

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

Other services provided by Grant Thornton UK LLP have been identified, as set out on the next page.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

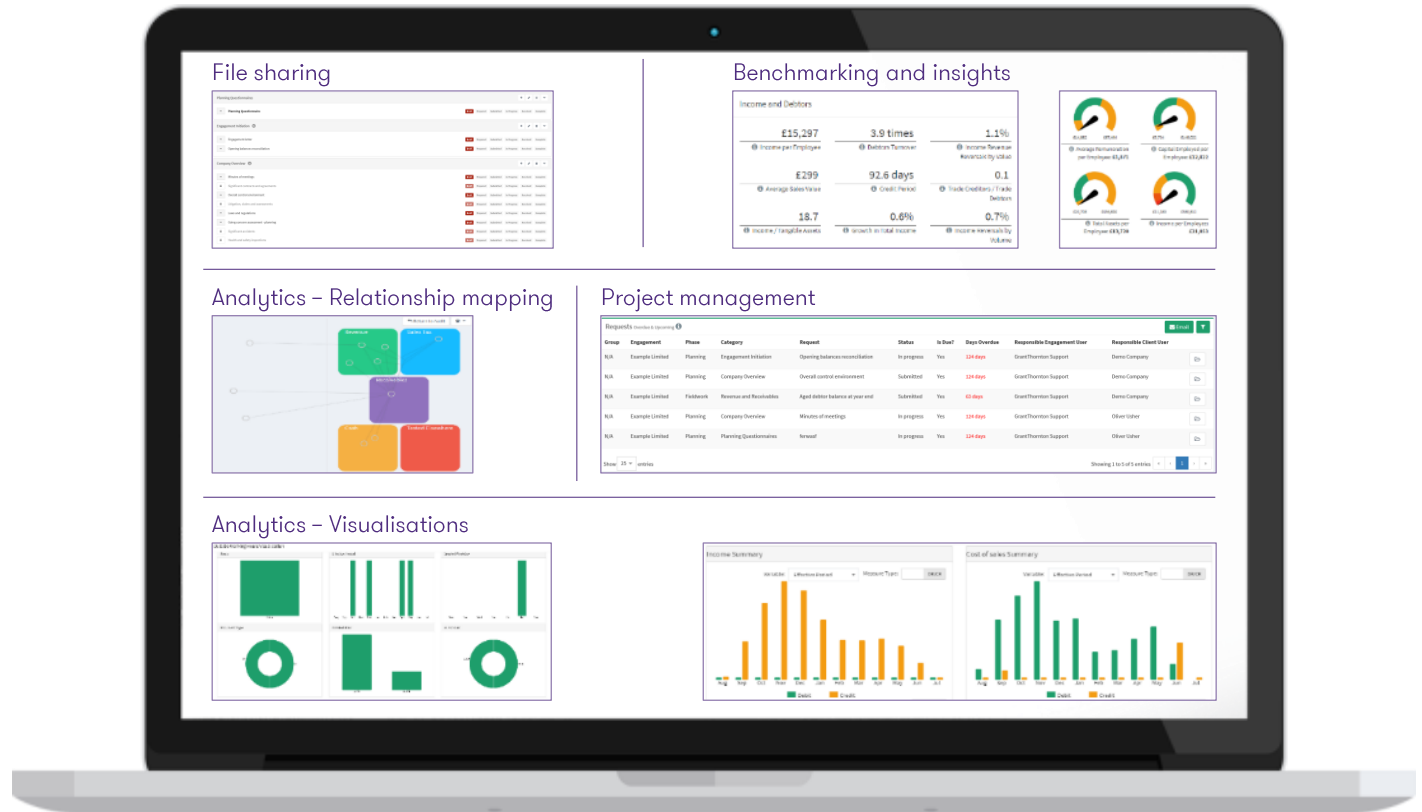
4. Independence and ethics

Audit related	Fees £	Threats identified	Safeguards
2021/22 Certification of Housing capital receipts grant	5,000 (expected)	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 anticipated to be £5,000 in comparison to the total fee for the audit of £167,061 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. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
2021/22 Certification of Teachers Pension Return	7,500 (expected)	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £7,500 in comparison to the total fee for the audit of £167,061 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. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
2020/21 Certification of Housing Benefit Claim (We are currently discussing the 2021/22 HBAP fee with the Council.)	22,200	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 anticipated to be £22,200 in comparison to the total fee for the audit of £167,061 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. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Total	£34,700		

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



Project management

- Facilitates oversight of requests
- Access to a live request list at all times



Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.



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