

Shropshire Council Audit Progress Report and Sector Update

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

14 February 2023



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Summary of Progress at 10th February 2023

Financial Statements Audit

Our financial statement audits for financial years 2020/21 and 2021/22 are now substantially complete. We have the following areas to conclude:

- The main area of fieldwork outstanding relates to Infrastructure. Following the Statutory Instrument coming into force at the end of December 2022 and CIPFA's guidance in January 2023 we have worked closely with the Council in assessing any potential impacts upon the financial statements. This has progressed significantly. We are currently working through documentation provided by officers, including Highway experts, to assess the reasonableness of useful lives used within the financial statements and the resulting depreciation charged in the financial statements.
- We await the final pieces of evidence to support pensionable pay referred to in the Council's IAS 19 report.
- The Council has engaged with a new valuer in 2021/22 to assess the accuracy of the footprints of assets which are used in the valuation process. The new valuer is proposing amendments to the void area measurements used in certain assets and we require the Council's assessment of the impacts of these remeasurement of void areas against the requirements of *IAS 8 - Accounting Policies, Changes in Accounting Estimates and Error* and specifically whether prior period adjustments maybe required.

Subject to the above, our final accounts closedown procedures will need to be completed as follows:

- Update our assessment of subsequent events up to the date of audit opinion being issued
- Review of financial statements received on 9th February 2023 and ensuring all agreed amendments have been processed
- Receipt of the Council's WGA pack and completion of our procedures thereon. HM Treasury have recently shared communications with WGA component finance teams which highlights that components will no longer be able to submit returns relating to 2020-21 after 25 January 2023. The NAO WGA audit team are considering the impact of this on any further assurances required from auditors for 2020-21 audits and we expect clarification on this matter in due course.
- 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 Reports to Those Charged With Governance

Audit Findings Report

Upon completion of our audit work we will re-issue our revised, final, Audit Findings Reports to the Audit Committee.

We have scheduled on the following slides a brief summary of issues identified since the last AFR's were presented to the Audit Committee. We are meeting regularly with Finance Officers to ensure audit queries are resolved as soon as possible.

Audit Findings update

Accounting area	Detail	Disclosure point Recommendation Financial impact	Relevant financial year
Group accounts	<p>Cornovii Developments Limited is a wholly owned subsidiary of the Council, as such the accounts of Cornovii are consolidated on a line by line basis into the Council's Group Accounts.</p> <p>At the time the Council's financial statements were prepared, only draft accounts of Cornovii were available to use as part of the consolidation process. This is normal practice however, final accounts are now available for Cornovii which indicate non-trivial differences to the draft accounts used for consolidation.</p>	Financial impact	2021/22
Group accounts	<p>West Mercia Energy (WME) – As part of group accounting arrangements the Council accounts for WME as a Joint Venture – meaning the council accounts for its share of WME balances (23.9% for 2021/22) .</p> <p>We have queried WME's Business Model with the Council in terms of whether they enter into futures contracts for energy supply which may give rise to forms of derivatives (and associated assets/liabilities that may need disclosure.) The Council has responded that this is not the case and that they 'adopt a pay as you go model for energy purchased' .</p> <p>We are aware WME have made changes to its purchasing arrangements from April 2022, as such the Council should review what this means for them in terms of risk exposure and potential further accounting disclosures, particularly given recent volatility in the energy markets.</p>	Recommendation	2021/22
Property, Plant and Equipment	<p>Valuer challenge – We are satisfied the Council appropriately challenges their External valuer in relation to unexpected or unusual movements in asset values. There were occasions however where this was not formally documented. We will be raising a recommendation regarding this point as it will aid the Council , especially should individuals leave.</p>	Recommendation	2021/22

Audit Findings update

Accounting area	Detail	Disclosure point Recommendation Financial impact	Relevant financial year
Property, Plant and Equipment	<p>Shrewsbury Sports village Land area – in 2020/21 an area of 4 hectares was provided to the Council’s External Valuer in relation to Shrewsbury Sports Village (asset reference SABC085). In 2021/22 a land area of 27.61 hectares was provided to the valuer.</p> <p>We have challenged the Council regarding this difference and it is understood the discrepancy arose because the sports village site area only was valued in terms of the site for the sports centre in 2021 as historically the wider site has received a nominal valuation due to a restriction limiting its use to playing fields. The Council flagged this to Montague Evans and as such the land area was updated for the 2022 valuations.</p> <p>We are satisfied the site area and subsequent valuation are materially accurate as at 31 March 2022. However, this work indicates that the 31 March 2021 Council’s asset value was understated by approximately £1.2m with a consequential impact upon revaluation movements within the 2021/22 financial s statements being misstated by a similar amount.</p> <p>The sums are not material and we are discussing with officers whether the accounts will be amended.</p>	Financial Impact	Both 2020/21 and 2021/22
Property, Plant and Equipment	<p>The population provided for asset addition testing included £532k of transactions dated outside of the 2021/22 financial year. The Council has an accruals policy of not accruing for capital items at year end below £75k which does explain the majority of transactions within the £532k. One item of £191k was identified which was in the incorrect financial year and should have been capitalised in 2020/21.</p> <p>This is a trivial amount however the Council should review its arrangements for year end accruals which are derived from the Techforge system. This is linked with our testing of Journals which identified high transaction volumes regarding the Techforge asset sub system.</p>	Recommendation	2021/22
Financial Instruments	<p>The Council’s fair value measurement in relation to PFI liabilities is based on a discount rate using premature repayment rates. This is not in accordance with IFRS 13. This has been discussed with the Council and they will be restating the disclosure relating to the fair value of PFI liabilities.</p>	Disclosure point	Both 2020/21 and 2021/22



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