Shropshire Council audit plan

Year ending 31 March 2023

28 September 2023

Contents

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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.

Key matters

National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time. Locally, the Council continues to operate in an uncertain and challenging environment, balancing service delivery against the impact of its decisions on the citizens of Shropshire, Council staff and their families.

Local context

For several years the Council has been reporting medium-term financial challenges. The Medium Term Financial Strategy (MTFS) for 2023/24 presented in February 2023 detailed the very challenging outlook for the Council. The Council took on board the recommendations detailed in the Local Government Association peer review (Link) and, as a result of the work of Cabinet and Officers during 2022, the Council reduced the total budget gap in its current MTFS forecasts to £9.2m to 2027/28. Whilst this is positive news, the budget is predicated on the delivery of £51.3m of service-based savings in 2023/24. This will be extremely challenging given the budgetary pressures facing the Council, particularly those relating to the growth in numbers of service users within Adult Social Care and Children's Social Care. The level of contract inflation has also increased significantly - to provide context, contract inflation historically has been approximately £2-3m, however for 2023/24 the Council was funding contract inflation up to £23.4m. The Council has however taken steps to mitigate this through use of reserves and balances.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Key matters

Emerging issues

A recent national issue has emerged regarding Reinforced Autoclaved Aerated Concrete (RAAC) and its potential impact on public sector buildings. We have enquired with management as to whether an assessment has been made regarding the existence of RAAC in any of council buildings (not just schools) and whether the valuer has taken account of any potential impairment in their latest valuation.

We understand management's assessment is in progress. The Council's Property and Development team is carrying out a data gathering exercise to identify if RAAC is present in any of the buildings that Shropshire Council is responsible for.

We have not identified a specific risk in relation to RAAC at this stage, we will however reconsider, once the work of the Property and Development team is complete and any impact on the Council's financial statements (2021/22 and 2022/23) considered by management.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Our Responses

- 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 out further on page 22 will be agreed with the Executive Director of Resource.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work. A joint report is being completed for the 2021/22 and 2022/23 financial years. A draft of this is in the final stage of review and will be shared with the Council's management team for comment by 6 October. A VFM delay letter is attached at appendix A.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We reported our 2020/21 Audit Findings Report to the July 2023 Audit Committee. Included in this report were improvement recommendations relating to the financial statements audit. Due to the proximity of prior year reporting we will report progress against recommendations as part of our final accounts procedures.
- We are currently waiting for management's response regarding the Council's exposure to the national RAAC issue before we can close the 2021/22 financial audit fully.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

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

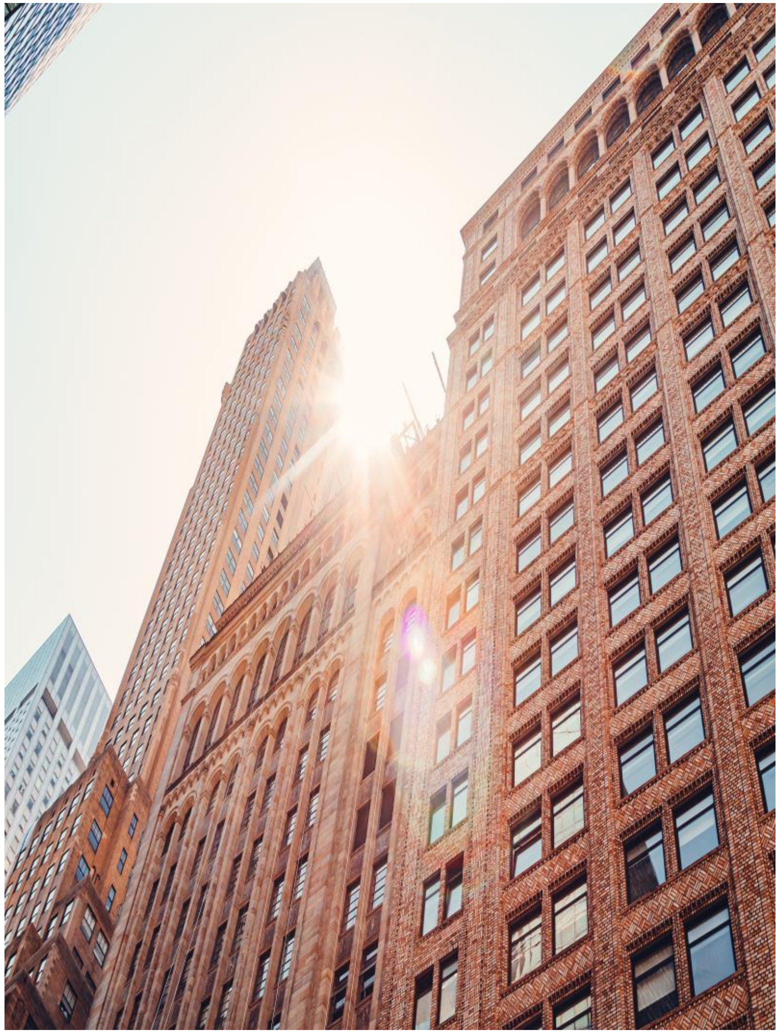
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment 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'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 in order 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.



Introduction and headlines

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 over-ride of controls
- Valuation of Land and Buildings
- Valuation of Council Dwellings
- Valuation of pension fund net 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 £8.9m) for the Council, which equates to 1.3% of your current year gross expenditure. 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 £450k).

We will apply headline materiality of 1.3% to the total senior officer remuneration. We will apply this materiality on an individual officer level.

Total senior officer remuneration per the draft 2022/23 accounts is: £819k, and lower materiality (1.3%) for senior officers' note is therefore £10,600.

Value for Money arrangements

Our planning risk assessment has identified the following risks of significant weakness:

- Financial Sustainability -Risk identified because of the Council's significant medium-term challenges
- Improving economy, efficiency and effectiveness - Risk identified because of the inadequate rating issued by Ofsted in respect of children in care

We will report our 2021/22 and 2022/23 Value for Money findings as part of a combined Auditor's Annual Report.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 19.

Our work on the Council's IT systems and business processes is ongoing at the time of writing this report. Should our work identify any changes to the proposed audit strategy we will report to management and the Corporate Governance Committee.

Audit logistics

Our final accounts visit started in August 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £178,249, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

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.

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
Presumed risk of fraud in revenue recognition ISA (UK) 240	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. 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: • 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. Therefore, we do not consider this to be a significant risk for the Council.	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: Accounting policies and systems • 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 Fees, charges and other service income • Agree, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. Taxation and non-specific grant income • Income for national nan-domestic rates and council tax is predicable 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 We will also design tests to address the risk that income has been understated, by not being recognised in the current financial year .
Risk of fraud related to expenditure recognition PAF Practice Note 10	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. 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.	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: Expenditure • 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 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 11

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls Risk relates to Group and Council	Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. 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.	We will: • 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.
Valuation of land and buildings Risk relates to Group and Council	The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every 5 years and are subject to an annual desktop review, in year where a full valuation is not undertaken. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£436.6m relating to Other land and Buildings and the sensitivity of this estimate to changes in key assumptions. We will focus our audit attention on those assets that have large/unusual changes in valuation or approaches to valuation, including key inputs, has changed. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment of land and buildings in our Audit Findings Report.	We will: • 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 . • For all assets not formally revalued or revalued on an indexation basis only, evaluate the judgements made by management or others in the determination of current value of these assets.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Council Dwellings £236m	The Council contracts an expert to provide annual valuations of council dwellings based on guidance issued by the Ministry of Housing, Communicates and Local Government (now Department for Levelling Up, Housing and Communities). They are valued using a beacon approach, based on existing use value discounted by the relevant social housing factor for Shropshire. Dwellings are divided into asset groups (a collection of property with common characteristics) and further divided into archetype groups based on uniting characterises material to their valuation, such as numbers of bedrooms. A sample property, the "beacon" is selected which is considered to be representative of the archetype group and a detailed inspection carried out. The valuation of this asset is then applied to all assets within its archetype. The key inputs into the valuation are the social housing factor, consideration of market movements and the determination of the beacons. We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • 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 valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenge the information and assumptions used by the valuer to assess the completeness and consistency with our understanding • engage our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' 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 and how management has satisfied themselves that these are not materially different from current value at year end.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability Risk relates to Group and Council	The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The Council's pension fund net liability is considered a significant estimate due to the size of the numbers involved (£117m at 31 March 2023 and £498m as at 31 March 2022) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We therefore identified valuation of the pension fund net asset/liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • 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 County Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Operating Expenses Risk relates to Group and Council	Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. Management also undertake an assessment of the levels of grant income received in the financial year to be deferred to future years based on the specific terms and conditions of funding. We therefore identify completeness of non-pay expenses as a risk requiring particular audit attention.	We will • 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 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 accounted for immediately prior to and after the year end to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period
Completeness, existence and accuracy of cash and cash equivalents Risk relates to Council	The receipt and payment of cash represents a significant class of transactions occurring throughout the year, culminating in the year-end balance for cash and cash equivalents reported on the statement of financial position. Due to the significance of cash transactions to the Council, we identified the completeness, existence and accuracy of cash and cash equivalents as a risk requiring special audit consideration.	We will • agree all period end bank balances to the general ledger and cash book; • agree cash and cash equivalents to the the bank reconciliation; • agree all material reconciling items and a sample of other items to sufficient and appropriate corroborative audit evidence; • obtain the bank reconciliation for the following month end and review the reconciling items against those included on the period end bank reconciliation; • write to the bank and obtain a bank balance confirmation; • agree the aggregate cash balance to the relevant financial statement disclosures.

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

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.

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.

Key changes within the group:

The Group risk assessment has not identified any changes from the prior year.

Group audit scope and risk assessment

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Shropshire Council	Yes	Audit of the financial information of the component using component materiality	See pages 7 to 10 of this report for risks identified.	Full scope audit performed by Grant Thornton UK LLP
Shropshire Towns and Rural Housing (STaRH) Ltd	No	Analytical procedures at group level	None identified	Analytical review performed by Grant Thornton UK LLP.
West Mercia Energy	No	Analytical procedures at group level	None identified	Analytical review performed by Grant Thornton UK LLP.
Cornovii Developments Limited	No	Analytical procedures at group level	None identified	Analytical review performed by Grant Thornton UK LLP.
IP &E Limited	No	Analytical procedures at group level	None identified	Analytical review performed by Grant Thornton UK LLP.
West Mercia Energy (Pension)	No	Analytical procedures at group level	None identified	Analytical review performed by Grant Thornton UK LLP.

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

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 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 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.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Description	Planned audit procedures
Determination We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £9m, which equates to 1.3% of your draft gross expenditure for the period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
Other factors An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – 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.
Reassessment of materiality Our assessment of materiality is kept under review throughout the audit process.	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.
Other communications relating to materiality 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.	We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. 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 £450k). 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.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	9,000,000 (Group) 8,900,000 (Council)	We have determined planning materiality to be £9.0 million (PY £9.0 million) for the group and £8.9m (PY £8.9m) for the Council, which equates to 1.3% of your current year gross expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding. 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 £450k).
Materiality for specific transactions, balances or disclosures: senior office remuneration	Various – see commentary	We will apply headline materiality of 1.3% to the total senior officer remuneration. We will apply this materiality on an individual officer level. Total senior officer remuneration per the draft 2022/23 accounts is: £819k, and lower materiality (1.3%) for senior officers' note is therefore £10,600.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 21.

The following IT system has been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Unit 4 ERP	Financial reporting and payment system	• Detailed ITGC assessment (design effectiveness only)

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office -issued its latest Value for Money guidance -to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Financial sustainability

Risk identified because of the Council's significant medium-term challenges.

Improving economy, efficiency and effectiveness

Risk identified because of the inadequate rating issued by Ofsted in respect of children in care

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

Planning and risk assessment

Audit planning
April – May 2023

Audit Committee
September 2023

Audit Plan

Year end audit
August – November 2023

Audit Committee
November 2023

Audit Findings Report, Audit Opinion and 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 manging the audit process in respect of the Council. She will be in hand to answer any queries, whilst ensuring an efficient audit process.

Phil Wood, Audit Incharge

Phil will work with relevant officers and our operational team to ensure the smooth planning and delivery of the audits. He 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 and updated Auditing Standards including ISA 315 Revised

In 2017 PSAA awarded a contract of audit for Shropshire Council to begin with effect from 2018/19. 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 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing and any impact on the audit fee. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf . This will be agreed with the Executive Director of Resources.

Audit fees

	Actual (or estimated) Fee 2021/22	Proposed fee 2022/23
Shropshire Council Audit	£177,811 (estimated)	£178,249
Audit of subsidiary company Shropshire Towns and Rural Housing Limited (STaRH)	£27,500 (Actual)	£34,000 (Estimated)
Total audit fees (excluding VAT)	£205,311	£212,249

Assumptions

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

- prepare a good quality set of accounts, 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.

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.

Fees relating to objections 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.

Audit fees – detailed analysis

Scale fee published by PSAA for 2022/23 (This includes 'baked-in' increases from previous years which continue to apply for future years in relation to: • £4,375 pension valuations • £4,375 for Group accounting • £3,750 for PFI • £6,250 for additional FRC challenge	121,811
Increases not included within revised scale fee - £5,438 for PP&E valuations	£5,438
Continued impact in relation to decreased materiality	£3,750
Impact of ISA540	£6,000
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£3,000
Increased audit requirements for ongoing raising of quality standards - FRC	£1,500
Infrastructure	£2,500
Other complex issues	£3,000
Appointment of auditor's expert in respect of PP&E valuations	£5,000
Enhanced audit procedures for Payroll – Change of circumstances	£500
Enhanced audit procedures for Collection Fund - reliefs testing	£750
Increased audit requirements of revised ISAs 315	£5,000
Additional work on Value for Money (VfM) under new NAO Code	£20,000
Total proposed audit fees 2022/23 (excluding VAT)	**£178,249**

All variations to the scale fee will need to be approved by PSAA

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 service	Fees £	Threats identified	Safeguards
2021/22 Certification of Housing capital receipts grant 2022/23 Certification of Housing capital receipts grant	£3,000 (complete and billed) £7,500* (expected	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is anticipated to be £7,500 in comparison to the total fee for the audit 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 2021/22 Certification of Teachers Pension Return 2022/23 Certification of Teachers Pension Return	£5,400 (complete and billed) £7,500 (complete and billed) £10,000* (in progress)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit 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 Housing Benefit Claim 2022/23 Certification of Housing Benefit Claim	£22,200 (complete and billed) £25,700* (in progress)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is anticipated to be £25,700 (based on prior year volume of testing) in comparison to the total fee for the audit 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.

* £43,200 relating to 2022/23 audit year

4. Independence and ethics

Audit and non-audit services – continued

Audit-related service	Fees £	Threats identified	Safeguards
Homes England 2021/22	£5,500	Self-Interest	This is potentially a recurring fee and therefore high self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work of £5,500 in comparison to the total fee for the audit and in particular to GTUK's turnover overall. The work is on audit related services. 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. This is potentially a recurring fee and therefore high self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work of £5,500 in comparison to the total fee for the audit and in particular to GTUK's turnover overall. The work is on audit related services. 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.
iXBRL tagging – Service carried out by separate Grant Thornton team for the Council's subsidiary Shropshire Towns and Rural Housing Limited (STaRH) 2022/23 first year	£550	Self - Interest	This is potentially a recurring fee and therefore high self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work of £550 in comparison to the total fee for the audit of either Shropshire Council or Shropshire Towns and Rural Housing Limited (STaRH) and, in particular, to GTUK's turnover overall. The work is on audit related service. It is carried out for and billed to STaRH, not the Council. 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. This is potentially a recurring fee and therefore high self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work of £550 in comparison to the total fee for the audit and in particular to GTUK's turnover overall.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

A. Audit letter in respect of delayed VFM work

Note that this letter does not form part of our formal communications under ISA 260 (Communication with Those Charged with Governance) but is included here for ease of reference.

Audit Committee Chair
Shropshire Council

Dear Councillor Williams, Chair of Audit Committee as TCWG,

2021/22 & 2022/23– Auditors' Annual Report

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our 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 can be issued in line with national timetables and legislation.

We wrote to you on 27 September 2022 to confirm that we expected to publish our Auditor's Annual Report for 2021/22 including our commentary on arrangements to secure value for money, no later than 30 September 2023. Since this date, and taking into consideration guidance issued by the NAO, a joint report will now be prepared for the 2021/22 and 2022/23 audit years. As such we now expect to publish our joint report for 2021/22 and 2022/23 by 31 December 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Grant Patterson

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

Grant Thornton

grantthornton.co.uk