The Audit Findings for Shropshire Council

Year ended 31 March 2023

Updated 16th February 2024

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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit Committee.

Grant Patterson

Grant Patterson
For Grant Thornton UK LLP
Date: 16 February 2024

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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Shropshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.	An Interim Audit Findings Report was presented to the Audit Committee in November 2023. Key changes made to the previous report have been highlighted in yellow. Our audit work has been conducted remotely throughout the audit. Our work is substantially complete subject to the following outstanding matters; • Receipt of management representation letter; • Completion of procedures regarding subsequent events; • Review of final version of financial statements ; • Final Manager and Engagement Lead review of the above This is the final version of the Audit Findings Report for the year to 31st March 2023 and is an update to the version presented to Audit Committee in November 2023. Our findings are summarised on pages 5 to 24. Audit adjustments are detailed in Appendix D. We are reporting one material adjustment to the draft financial statements presented in May 2023 which has now been amended in the final version of the financial statements. The adjustment has resulted in a £29.1m movement to the Council's Comprehensive Income and Expenditure Statement. This amendment relates to the movement in the net Pension Fund liability. As a result of the publication of the 31st March 2022 triennial valuation better information was available on conditions that existed at 31 March 2022 and the Council amended its 2021/22 financial statements after the 2022/23 accounts were published. There has therefore been a knock on impact into the 2022/23 financial statements. As a result of the statutory override this amendment does not impact on the general fund balances of the Council with the impact being reflected within the pension fund reserve account. We also identified two non-trivial misstatements which have not been adjusted in the financial statements. These are detailed within Appendix D including the reason for non-adjustment. We are seeking Those Charged with Governance's agreement to management's decision not to amend for these on the basis that are not material either quantitatively or qualitatively. In summary, these are as follows: • **Pension asset** - The response from the Pension Fund auditor includes details of an understatement of pension fund assets relating to a timing difference of £2.244m. Using an estimated share of the net assets associated with the Council of 45.11% as part of their audit procedures the Pension Fund auditor estimated the potential impact for Shropshire Council is £987k. Therefore, the net pension liability recognised in the statement of accounts is overstated by £987k. This does not impact on the general fund balance of the Council. • **Other Land and Buildings**– Gross internal areas. Our testing of Other Land and Buildings has identified an error in the use of an incorrect gross internal area (Oswestry Leisure Centre). This has been revalued based on the correct GIA and the value of the asset is now £2.1m lower than the initial valuation. When extrapolated across the remaining untested population there is residual uncertainty of £1.5m, a total potential misstatement of £3.6m. This also does not impact on the general fund balance of the Council . A number of disclosure and misclassification misstatements were also identified and are summarised in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. We identified recommendations as part of the 2021/22 financial statements, which resulted in eight recommendations being reported in our 2021/22 Audit Findings Report. Due to the timing of the 2021/22 Audit Findings Report it is reasonable that the Council has not yet had the opportunity to implement these recommendations. We will follow up recommendations as part of the 2023/24 audit for both the 2021/22 and 2022/23 financial years.

1. Headlines

Financial statements - continued	We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited. We have nothing to report in relation to statutory powers or other duties. We will be unable to certify the audit closed until our work on the whole of government accounts is complete and we have issued our Annual Auditor's Report.
Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: • Improving economy, efficiency and effectiveness; • Financial sustainability; and • Governance	We have completed our VFM work and draft reports will be shared with management ahead of the Audit Committee. We are therefore not in a position to issue our final Auditor's Annual Report to this Audit Committee meeting. An audit letter explaining the reasons for the delay was included as an Appendix within the 2022/23 Audit Plan presented to the September 2023 Audit Committee. For reference this is included at Appendix H. We expect to issue our joint Auditor's Annual Reports for 2021/22 and 2022/23 by 31 March 2024. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. However, we have been contacted separately by 2 Shropshire taxpayers asking us to consider matters which they believe fall under the Local Audit and Accountability Act 2014. We are: • liaising with them further to inform them of their statutory rights and the proper challenge procedures, and • considering whether the information provided requires investigation under the Code of Audit Practice. We completed our work on one objection on the 17 May 2023. Work on the other is progressing and we will keep the Audit Committee abreast of this matter. The objection relates to the 2020/21 financial year. We expect to certify the completion of the audit upon the completion of the above and our work on the Council's Value For Money arrangements, which will be reported in our Annual Auditor's Report, as well as the completion of our work on the Whole of Government Accounts procedures.
Significant matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. We have not identified any similar risks regarding the Councils investment property portfolio.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the current observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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 for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that no specified audit procedures for any components were required with analytical procedures being sufficient.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have made two minor changes to our audit approach to that reported in our Audit Plan. Following receipt of the draft financial statements and completion of our risk assessment and strategies in respect of Council Dwellings and Investment Property we determined that:

- The movements in council dwellings valuations were within our expectations and we therefore reduced them from a significant risk to an 'other risk' (SCOT+)
- The movements in investment properties valuations were not fully in line with our expectations and we therefore increased their risk from 'other risk' (SCOT+) to a significant risk.

Conclusion

Our work is substantially complete subject to the following outstanding matters;

- Receipt of management representation letter;
- Completion of procedures regarding subsequent events;
- Review of final version of financial statements;
- Final Manager and Engagement Lead review.

We anticipate issuing an unqualified audit opinion following the 22nd February 2024 Audit Committee meeting .

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

We continue to engage well with the central finance team and key staff members have been instrumental in supporting the wider audit, especially where requests require the involvement of other departments.

The 2022/23 audit has progressed at a faster pace than prior years but it has taken longer than expected. We are aware this has extended into the budget setting window of the Council which we appreciate is a challenging time and puts competing demands on finance staff. We have encountered some delays in responses from departments outside of the finance team and this has been escalated to Senior officers within the Council. This has helped to move some outstanding items forward.

Moving forward, we will review, in detail, the 2022/23 audit process alongside the Council and agree how the 2023/24 audit timeline and procedures can be enhanced to ensure the audit is completed as efficiently as possible.

2. Financial Statements

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.

Materiality levels remain the same as reported in our audit plan.

We set out in this table our determination of materiality for Shropshire Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	9,000,000	8,900,000	We determined materiality for the audit of the Council's financial statements as a whole to be £9m (Group) and £8.9m (single entity statements), which equates to approximately 1.3% of the Council's gross operating expenses. 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.
Performance materiality	6,300,000	6,230,000	We use a different level of materiality, performance materiality, to drive the extent of our testing. Our consideration of performance materiality is based upon a number of factors: • We have not historically identified significant control deficiencies as a result of our audit work • We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment • There were misstatements identified as part of the 2021/22 audit in relation to property, plant and equipment. • There were recommendations raised in 2021/22 in relation to the Council's IT environment. • Senior management and key reporting personnel in the finance function has remained stable from the prior year audit On this basis we have maintained the performance materiality threshold at 70% which is consistent with prior year.
Trivial matters	450,000	445,000	We determined the threshold at which we will communicate misstatements to the Audit Committee to be £445k.
Materiality for senior officer remuneration	10,600	10,600	In accordance with ISA 320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. 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. We have determined a lower materiality for senior officer remuneration disclosures (at individual officer level) linked to the total value of the disclosures and applying the same 1.3% benchmark as for the main financial statements.

2. Financial Statements: Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls (Risk relates to Council and Group) 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 have: • evaluated the design and implementation of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness and • evaluated the rationale for any changes in estimates and unusual transactions. From the sample testing of journals undertaken we have found that they were appropriate, eligible and valid, and can be agreed to supporting evidence. Our approach to this work was informed by the findings made by our IT audit specialists from their review of the Council's IT general controls. This year IT audit undertook a design and implementation review of the following applications, which were scoped into the review on the grounds that they impact the financial reporting of the Council: • ERP (Finance, HR and Payroll) • Altair (Pension Administration system) • Active Directory (domain controller authenticating and authorising users and assigning and enforcing security policies, eg password control Recommendations have been made in relation to the IT review – these can be found in Appendix B. **Our work in this area is complete. We identified no findings from our work in this regard.**

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Presumed risk of fraud in revenue recognition **ISA (UK) 240** (Risk relates to Council and Group) 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 ISA 240, and the nature of the revenue streams of Shropshire Council, we have determined that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical frameworks of public sector bodies, including Shropshire Council, 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 have undertaken a significant level of work on the Council and Group's revenue streams, as they are material. We have: Accounting policies and systems • evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code • updated our understanding of the Council's business processes associated with accounting for income Fees, charges and other service income • agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. Taxation, non-specific grant income and other grants • applied substantive analytical procedures to income for national non-domestic rates and council tax. As part of this analytical procedure, we are required to test a sample of discounts and reliefs across the CT and NDR systems. • sample tested items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. We also designed tests to address the risk that income has been understated, by not being recognised in the current financial year. Our work in this area is complete. We identified no findings from our work in this regard.
Risk of fraud related to expenditure recognition: Public Audit Forum (PAF) Practice Note 10 (Risk relates to Council and Group) In line with the Public Audit Forum Practice Note 10, 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 recognition (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 misstatements due to fraud related to revenue recognition. Having considered the nature of the expenditure streams of Shropshire Council, and on the same basis as that 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 have undertaken a significant level of work on the Council's expenditure streams, as they are material. In addition to reviewing the accounting policies as highlighted above, we have: Expenditure • updated our understanding of the Council's business processes associated with accounting for expenditure • agreed, on a sample basis, operating expenditure, housing benefit expenditure, agency costs and year end creditors to invoices and cash payment or other supporting evidence • performed substantive analytical procedures on the Council's employee remuneration costs and depreciation We also designed tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year. Our work in this area is complete. We identified no findings from our work in this regard.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings – Other Land and Buildings -£436.6m (Risk relates to Council) Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets. Depreciated replacement cost (DRC) is a method of valuation that provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation. Where DRC is used as the valuation methodology, authorities should use the 'instant build' approach at the valuation date and the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided. For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset. 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 have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work • evaluated the competence, capabilities and objectivity of the Council's valuation expert • written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding • engaged 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 • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluated 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 • for all assets not formally revalued or revalued on an indexation basis only, evaluated the judgements made by management in the determination of current value of these assets Findings Our work in this area is complete. Our testing of Other Land and Buildings has identified an error in the use of an incorrect gross internal area (Oswestry Leisure Centre). This has been revalued based on the correct GIA and the value of the asset is now £2.1m lower than the initial valuation. When extrapolated across the remaining untested population there is residual uncertainty of £1.5m, a total potential misstatement of £3.6m. This has been reported within Appendix D as an unadjusted misstatement. We have raised recommendations in relation to the number of valuers involved in the Council's valuation process and asset capitalisation procedures. Further detail is in Appendix B.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Investment property - £60.7m (Risk relates to Council) The valuation of investment property was not identified as a significant risk as part of our Audit Plan. During the audit we have reassessed this balance and reclassified as a significant risk. The Council is required to revalue its investment property annually. This valuation represents a significant estimate by management in the financial statements due to the values involved (£60.7m as per draft 2022/23 financial statements) and the sensitivity of this estimate to changes in key assumptions.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work • evaluated the competence, capabilities and objectivity of the Council's valuation expert • written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding • engaged 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 • tested revaluations made during the year to see if they had been input correctly into the Council's asset register Findings **Our work in this area is complete. We identified no findings from our work in this regard.** We have however raised recommendations in relation to the number of valuers involved in the Council's valuation process and asset capitalisation procedures. Further detail is in Appendix B.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability (Risk relates to Council and Group) 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 (£117.3m at 31 March 2023 and £498m as at 31 March 2022 per draft accounts and £126.4m at 31 March 2023 and £536.5m as at 31 March 2022 per updated accounts) 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 liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation • assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liabilities • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary • undertaken 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 • sought 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 send to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Findings Our audit work in this area is complete. The response from the Pension Fund auditor includes details of an understatement of pension fund assets relating to a timing difference of £2.244m. Using an estimated share of net assets of 45.11% as part of their audit procedures the Pension Fund auditor estimated the potential impact for Shropshire is £987k. Therefore, the net pension liability recognised in the statement of accounts is overstated by £987k. This has been recorded as a misstatement. This has been reported within Appendix D as an unadjusted misstatement.

2. Financial Statements - Other risks

Risks identified in our Audit Plan	Commentary
Operating expenditure (completeness) 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. We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.	We have: • evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness • gained an understanding of the Council's system for accounting for non-pay expenditure • tested a sample of balances included within trade and other payables • tested 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. • tested a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period. **Our work in this area is complete. We identified no findings from our work in this regard.**
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 which required special audit consideration. **Our work in this area is complete. We identified no findings from our work in this regard.**
Valuation of council dwellings - £236m The valuation of Council Dwellings was identified as a significant risk as part of our audit planning. During the audit we reviewed our risk assessment and have reclassified as 'other risk'. 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 have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding • engaged 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 • tested revaluations made during the year to see if they had been input correctly into the Council's asset register **Our work in this area is complete. We identified no findings from our work in this regard.**

2. Financial Statements – Key findings arising from the group audit

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.

Our work group components is complete. Our findings are summarised below.

Component	Individually Significant?	Approach per Audit Plan	Findings
Shropshire Council	Yes	Full scope UK statutory audit performed by Grant Thornton UK LLP	See section 2 of this report
Shropshire Towns and Rural (STaR) Housing Ltd	No	Analytical review performed by Grant Thornton UK LLP.	No issues identified.
West Mercia Energy	No	Analytical review performed by Grant Thornton UK LLP.	No issues identified.
Cornovii Developments Limited	No	Analytical review performed by Grant Thornton UK LLP.	Within Appendix D we have reported: • an adjusted misstatement regarding related party disclosures and Cornovii Developments Limited, and • an unadjusted misstatement related to a net £0.2m movement in the profit and loss accounts following receipt of updated financial statements.
IP &E Limited	No	Analytical review performed by Grant Thornton UK LLP.	No issues identified.
West Mercia Energy (Pension)	No	Analytical review performed by Grant Thornton UK LLP.	No issues identified.
SSC No 1 Limited	No	Analytical review performed by Grant Thornton UK LLP.	No issues identified.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Other - £436.6m	Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its in-house valuer to complete the valuation of properties as at 31 March 2023. 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 five years but are subject to an annual desktop review.	• We have engaged our own valuer to assist with our work and challenge in this area. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • There have been no changes to the valuation method this year. • We have considered the movements in the valuations of individual assets and their consistency with published indices. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging gross internal areas. Our work in this area is complete. Our testing of Other Land and Buildings has identified an error in the use of an incorrect gross internal area (Oswestry Leisure Centre). This has been revalued based on the correct GIA and the value of the asset is now £2.1m lower than the initial valuation. When extrapolated across the remaining untested population there is residual uncertainty of £1.5m, a total potential uncertainty of £3.6m. This has been reported within Appendix D as an unadjusted misstatement. We have raised recommendations in relation to the number of valuers involved in the Council's valuation process and asset capitalisation procedures. Further detail is in Appendix B.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £60.7m	Investment properties are initially measured at cost and thereafter at fair value, which is interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value (MV). Investment properties held at fair value are not depreciated. The fair value of investment properties reflect market conditions at the Balance Sheet date; this means the periodic (5-yearly) revaluation approach may only be used where the carrying amount does not differ materially from that which would be determined using fair value at Balance Sheet date. As such the Council carries out an annual review to ensure their valuation reflects fair value at the balance sheet date.	• We have engaged our own valuer to assist with our work and challenge in this area. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • There have been no changes to the valuation method this year. • We have considered the movements in the valuations of individual assets and their consistency with published indices. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging the floor areas. **Our work in this area is complete. We identified no findings from our work in this regard.** We have however raised recommendations in relation to the number of valuers involved in the Council's valuation process and asset capitalisation procedures. Further detail is in Appendix B.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
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- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £117.3m per draft accounts (£126.4m per updated accounts) **Prior year** £498m as at 31 March 2022 per draft accounts and £536.5m per updated accounts	The Council's net pension liability at 31 March 2023 is £117.3m (PY £498m) per draft accounts, comprising the Shropshire County Council Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The comparative financial information relating to the 2021/22 financial year has been updated to reflect the impact of updated membership information from the latest triennial valuation for Shropshire Pension Fund, which is as at 31 March 2022 and to agree to the signed 21/22 financial statements As a result, we requested that management obtain a revised report from their actuary for the 2022/23 financial year as opening assets and liabilities would be different following the updated triennial information.	See audit comments below	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Audit Comments:

- We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.
- We have used the work of PwC, as auditors' expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Shropshire County Council Pension Fund valuation as it applies to Shropshire Council.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.80%	4.7%-4.9%	● (G)
Pension increase rate (CPI)	2.70%	2.70% for all employers	● (G)
Salary growth	3.95%	3.95% to 4.20% (1.25% p.a. to 1.50% p.a. above CPI.)	● (G)
Life expectancy – Males currently aged 45 / 65	45: 23.5 65: 22.2	22.4 - 24.3 21.0 – 22.6	● (G)
Life expectancy – Females currently aged 45 / 65	45: 26.3 65: 24.5	25.3 -26.6 23.5 – 24.7	● (G)

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We are content with the adequacy of the disclosure of the estimate in the financial statements.

Findings

Our audit work in this area is complete.

The response from the Pension Fund auditor includes details of an understatement of pension fund assets relating to a timing difference of £2.244m . Using an estimated share of net assets of 45.11% as part of their audit procedures the Pension Fund auditor estimated the potential impact for Shropshire is £987k. Therefore, the net pension liability recognised in the statement of accounts is overstated by £987k. This has been recorded as a misstatement.

This has been reported within Appendix D as an unadjusted misstatement.

Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £8.9m per draft accounts, £9.6m per amended accounts.	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance and the Council's policy for the calculation of MRP is set out in its annual budget setting report presented to Council. The year-end MRP charge was £8.971m per draft accounts. An amendment has been made to the MRP charge in relation to PFI assets, increasing this to £9.6m per the updated accounts. The amended MRP charge reflects a £316k increase on the 2021/22 charge. The Council calculates MRP on capital expenditure using the Annuity basis., as allowed under the relevant guidance. For unsupported borrowing MRP is calculated based on an annuity basis over the expected life of the asset for which the borrowing was undertaken. Management consider this to be a prudent approach as it takes into account the materiality of each asset and its remaining useful life.	Benchmarking the Council's MRP as a percentage of its closing Capital Financing Requirement shows that in 2022/23 the Council's contribution represented 2%, an increase from 1.94% in 2021/22. We assess this estimate, considering: • whether the MRP has been calculated in line with the statutory guidance • whether the Council's policy on MRP complies with statutory guidance. • whether any changes to the authority's policy on MRP have been discussed and agreed with those charged with governance and have been approved by full council • the reasonableness of the increase in MRP charge *The Council's accounting policy 1.16 states 'Where the Council has made capital loans to third parties financed from the Council's balances, the annual repayments of principal amounts are treated as capital receipts and set aside in the Capital Adjustment Account in place of a revenue MRP charge.'* Government consulted (February 2022) on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans. Government has not yet issued a full response to the consultation. It is our view therefore that the Council's current policy is not in accordance with the current capital finance regulations but is reflected in proposed changes that are currently being consulted upon. As capital loans to third parties total £28m as at 31 March 2023 (£13m short term and £15m long term) we are satisfied this would not have a material impact on the MRP charged. A recommendation has been included within Appendix B. **Our work in this area is complete. We identified no findings from our work in this regard.**	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £236m	The Council owns 4,000 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council engaged the Valuation Office Agency (VOA) District Valuer to complete the valuation of these properties. The year end valuation of Council Housing was £236m in the draft accounts, a net increase of £11.9m from the 2021/22 balance of £224.1million.	The total housing stock was revalued as at 31 March 2023 • We have engaged our own valuer to assist with our work and challenge in this area. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • The housing stock has been divided using the external valuer's judgements and knowledge by applying the beacon methodology. This approach is consistent with the prior year. • We have considered the indices that the valuer has used in performing the valuation and are in the process of discussing the appropriateness of these with the Council and its valuer. • We have considered the completeness and accuracy of the underlying information used to determine the estimate. **Our work in this area is complete. We identified no findings from our work in this regard.**	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks
Unit 4 – ERP (Financial reporting and payment system)	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	Management override of controls (journals), Valuation of PPE and investment property assets and valuation of Pension liability.
Active Directory	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	Management override of controls (journals), Valuation of PPE and investment property assets and valuation of Pension liability.

Assessment

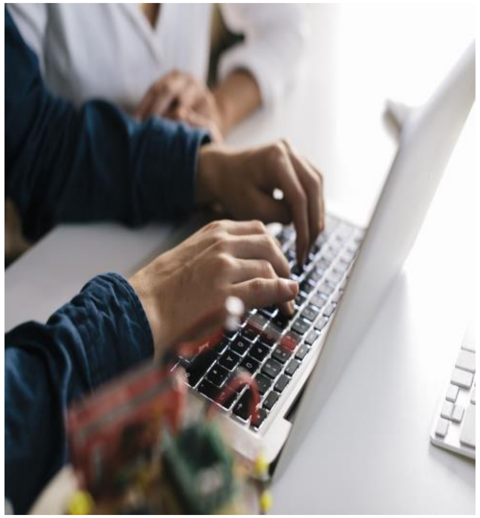
- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We have identified a misstatement regarding related party disclosures, in particular, relating to debtor balances with Cornovii Developments Limited. This is reported within Appendix D. We are not aware of any additional related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group and the Council's arrangements in respect of Equal Pay , which is set out at Appendix F .
Group Accounts	The financial statements include group accounts which report the consolidated position for the Council's subsidiaries and entities where it has significant control or influence. This includes Shropshire Town and Rural Housing Limited (STaR), the West Mercia Energy, West Mercia Energy (Pension) , Cornovii Developments Limited, IP & E Limited and SSC number 1 Limited. Our analytical review of the other group entities and consideration of the group consolidation is now complete. We have identified one disclosure misstatement. The Council's group 'adjustments between Group Accounts and Authority Accounts un the Group Movement in Reserves Statement' has been presented as a primary statement within the draft accounts. It is not a primary statement and as such the Council has moved this to a note within the group financial statements. There are no other points to report.

2. Financial Statements: other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to those organisations with which it banks, borrows and in which it invests. This permission was granted, and the requests were sent. However not all requests were received and so we undertook alternative substantive procedures.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	We continue to engage well with the central finance team and key staff members have been instrumental in supporting the wider audit, especially where requests require the involvement of other departments. The 2022/23 audit has progressed at a faster pace than prior years but it has taken longer than expected. We are aware this has extended into the budget setting window of the council which we appreciate is a challenging time and puts competing demands on finance staff. We have encountered some delays in responses from departments outside of the finance team and this has been escalated to Senior officers within the Council. This has helped to move some outstanding items forward. Moving forward, we will review, in detail, the 2022/23 audit process alongside the Council and agree how the 2023/24 audit timeline and procedures can be amended to ensure the audit is completed as efficiently as possible.

2. Financial Statements: other communication requirements

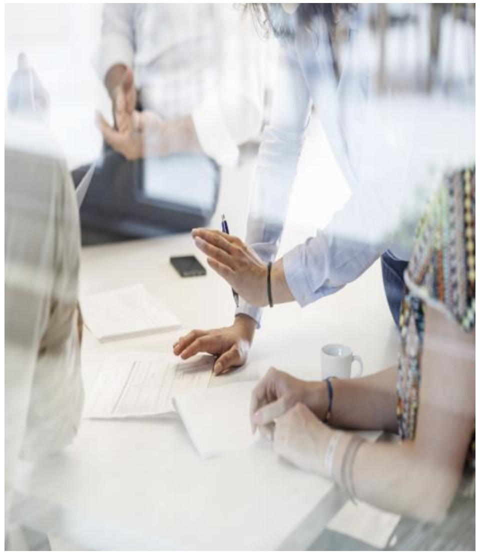
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that detailed work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2022/23 audit of Shropshire Council in the audit report, as detailed in Appendix I, due to our 2022/23 VFM work being incomplete and a prior years audit objection remaining open.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Status of Value for Money work for 2022/23

We have substantially completed our VFM work and our detailed commentary will be shared with the Council as a separate report, the Auditor's Annual Report.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

4. Independence and ethics

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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard 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.

Details of fees charged are detailed in Appendix F.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, which were charged from the beginning of the financial year to date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees

Audit-related service	Fees £	Threats identified	Safeguards
2021/22 Certification of Housing capital receipts grant 2022/23 Certification of Housing capital receipts grant	£7,500 (complete and billed) £10,000* (expected	Self-Interest (because this is a recurring fee) Self review Management	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. To mitigate against the management threat, ie acting in the capacity of management, the scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow.
2020/21 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) Self Review Management	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. To mitigate against the management threat, ie acting in the capacity of management, the scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow.
2021/22 Certification of Housing Benefit Claim 2022/23 Certification of Housing Benefit Claim	£28,500 (complete, to bill) £25,700* (in progress)	Self-Interest (because this is a recurring fee) Self Review Management	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. To mitigate against the management threat, ie acting in the capacity of management, the scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow.

* £45,700 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.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

Appendices

A. Communication of audit matters to 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	•	
Confirmation of independence and objectivity	•	•
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 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 involving management and/or which results in material misstatement of the financial statements		•
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 Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified six recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 audit . The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Low – Best practice	**IT recommendation 1** Lack of review of information security/audit logs in the Active Directory We noted that there are 21 generic accounts in the Active Directory that are controlled by the Council. However, the information security event logs, which capture the monitoring of activities such as failed logins and use of privileged user accounts within Active Directory are not reviewed. **Risk** Without formal and routine reviews of security event logs, inappropriate and anomalous activity may not be detected and resolved in a timely manner. Additionally, unauthorised system configuration and data changes made using privileged accounts will not be detected by management.	**Recommendation** Information security events such as • repeated invalid/ unauthorised login attempts to access systems, data or applications • privileged user activities • privileged generic accounts • changes to system configurations, tables and standing data should be logged and formally reviewed. It is recommended that security event logs are reviewed on a regular basis for example daily or weekly, ideally by an IT security personnel / team who are independent of those administrating [the application] and its underlying database. Any issues identified within these logs should be investigated and mitigating controls implemented to reduce the risk of reoccurrence. **Management response - November 2023** • Due to the extreme volume of login information captured by the various DC controllers a review of failed logins is not practical. Other controls are in place such as Conditional access rules, Geo Access rules, Device access controls, multi factor authentication that limit/prevent unauthorized access. • Generic accounts are only ever created after permission by the ISIG function • Global Security events are monitored by both ICT and our external SOC service.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low – Best practice	IT recommendation 2 Insufficient evidence of Implementation of Cyber Security Controls We noted the following deficiencies: • The Council has not adopted a cyber security framework. • No formal cyber incident response plan. • Lack of maintaining baseline security configuration standards and configurations for IT components (for example, networking equipment, cybersecurity equipment, servers, and workstations, mobile devices). Risks Not being able to evidence the existence and operation of cyber-security controls makes it difficult for the business to confirm that they are adequately protected against the threat of a potential cyber incident. In particular: Cybersecurity risk is the probability of exposure, loss of critical assets and sensitive information, or reputational harm because of a cyber-attach or breach within an organisation's network. Lack of policies or outdated policies can leave organisations at risk by failing to comply with new laws and regulations. They may not address new systems or technology which can result in inconsistent practices across the organisation.	Recommendation In the absence of appropriate evidence, it has been assumed that cyber-security controls are not in place; therefore, it is recommended that Management implement and review all key policy and process documents on an annual basis. Reviews should be undertaken by a member of staff with appropriate knowledge and approved by management. The review/update should be formally documented within each document in a change and revisions reference table. Management response - November 2023 • The Council is working to create the documentation listed. • Cyber security frameworks are being considered. • Key system configurations are backed up and their configuration changes controlled.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium – Limited effect on financial statements	**Number of management experts (recommendation relevant to 2021/22 and 2022/23 audit)** The Council now engages with four valuation experts in relation to its asset portfolio, five including the 2021/22 CAD expert , although it is appreciated this is not a regular appointment. When compared to similar organisations , it is unusual for four experts to be involved in the valuation of Property, Plant and Equipment	The Council should review these arrangements annually to ensure all engagements remain appropriate and necessary. **Management response** All arrangements have been reviewed and it is considered appropriate to have different experts involved, due to the subject matter of the asset valuations and to ensure no conflicts of interest.
Medium – Limited effect on financial statements	**Final accounts closedown (recommendation relevant to 21/22 and 22/23 audit)** We continue to engage well with the central finance team and we have seen increased direct involvement in the audit with Estates and Facilities team throughout the audit . This has been instrumental in progressing complex areas of the audit. There are departments, however, where there has been a lack of engagement in the 2021/22 audit process. We appreciate the priorities and pressures on the departments do fluctuate however we have been unable to progress our work efficiently in some areas incurring additional audit time and effort. We are working with the Council's finance team to progress these issues as quickly as possible.	The Council should ensure all key departments are involved at an early stage of the 2022/23 accounts planning process and their role in the audit process discussed in order to address any expectation gaps. **Management response** All departments involved in the audit process have been notified of likely timescales and the expectations for information and queries that they will be involved in within the 2022/23 audit planning process..
Medium – Limited effect on financial statements	**Asset capitalisation (recommendation relevant to 2021/22 and 2022/23 audit)** Our testing of PP&E additions and review of information in both the 2021/22 and 2022/23 financial years has identified items of capital expenditure capitalised in the wrong accounting period.	The Council should review its year end process in relation to capital accruals to ensure assets are capitalised in the correct financial year. **Management response** This process has been reviewed in the 2022/23 closedown procedures to ensure that assets are capitalised in the correct financial year.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium – Limited effect on financial statements	MRP policy (recommendation relevant to 2021/22 and 2022/23 audit) *The Council's accounting policy 1.16 states 'Where the Council has made capital loans to third parties financed from the Council's balances, the annual repayments of principal amounts are treated as capital receipts and set aside in the Capital Adjustment Account in place of a revenue MRP charge.'* It is our view that this is not in accordance with the current capital finance regulations but is reflected in proposed changes that are currently being consulted upon. As capital loans to third parties total £20m as at 31 March 2022 we are satisfied this would not have a material impact on the MRP charged.	The Council should keep its MRP policy under review and ensure it is charged in accordance with the Capital Finance Regulations. Management response The Council will review the MRP policy to ensure it is in line with current capital finance regulations. The MRP resulting from the change is not material.
Medium – Limited effect on financial statements	The Council should review its accounting polices to ensure they remain appropriate. In particular in relation to: • Finance leases • Diocese schools remaining on balance sheet- The Council currently holds £10.2m diocese schools within its financial statements. The Council should ensure it revisits the assessment of 'control' regarding the 5 schools remaining on council's balance sheet as this assessment was completed a number of years ago. • Material estimation uncertainty	Management response The Council performs a review of its accounting policies each year to identify any specific changes that need to be reflected and this task will remain a key part of the Statement of Accounts review that we undertake.
Medium – Limited effect on financial statements	The council should review its disclosures in relation to Pension guarantees and whether disclosure under contingent liability is the most appropriate treatment	Management response Management has assessed the value of the liability under IFRS 4 and found the risk figure to be below triviality. This will be kept under review in each year's Statement of Accounts.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

We identified issues in the audit of Shropshire Council's 2021/22 financial statements, which resulted in eight recommendations being reported in our 2021/22 Audit Findings report. Due to the timing the 2021/22 Audit findings report it is reasonable that the Council has not yet had the opportunity to implement. We will follow up recommendations as part of the 23/24 audit for the 21/22 and 22/23 financial years

D. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

As part of the Council's reporting to the September 2023 Audit Committee a detailed paper was included titled 'Approval of the Council's Statement of Accounts 2022/23' which, in paragraph 8.2 includes a clear summary changes made between the draft financial statements dated 31st May 2023 and the updated accounts . This included the pensions adjustment below.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure
<u>Pensions adjustments following 2022 triennial valuation (impact single entity and group)</u> The Council is a scheduled body within Shropshire Pension Fund. The latest triennial valuation for Shropshire Pension Fund was published in March 2023. This valuation, which is as at 31 March 2022, provides updated information for the net pension liability on the Council's balance sheet, particularly in respect of membership data and demographic assumptions. The Council has revised its 31st March 2022 financial statements and also received an updated IAS 19 report as at 31st March 2023 following the prior year restatement. There is a net nil impact on the general fund in respect of this adjustment due to statutory adjustments the Council is required to make The total movement in year of £28.8m as shown in the Income and Expenditure Statement includes the movement in the 2021/22 opening balance of the Pensions Liability and Unusable Reserves of £37.9m The net difference of £9.1m being reflected as the increase in pension liability as at 31 March 2023 compared to the draft financial statements.	Increase in remeasurement of Net defined Benefit Liability of £28.8m	Increase in pension fund net liability opening balance (£37.9m) In year CIES movement £28.8m = Increase in pension liability as at 31 March 2023 = £9.1m (£117.3m to £126.4m)	Increase in net expenditure of £28.8m (reversed in Movement in reserves statement therefore no impact on the Council's general fund balance)
Overall impact	£28.8m	£9.1m	£28.8m

Comparative changes

Material changes have been made to the 2021/22 financial statements in relation to the 2022 triennial valuation. We are satisfied with the amendments made within the 2021/22 financial statements and that the subsequent amendments have now been made within the 2022/23 financial statement comparatives.

D. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of unadjusted misstatements

There are two adjustments identified during the 2022/23 audit which has not been made within the final set of financial statements.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure	Reason for not adjusting
Pension asset The response from the Pension Fund auditor includes details of an understatement of pension fund assets relating to a timing difference of £2.244m . Using an estimated share of net assets of 45.11% as part of their audit procedures the Pension Fund auditor estimated the potential impact for Shropshire is £987k. Therefore, the net pension liability recognised in the statement of accounts is overstated by £987k. This has been recorded as a misstatement.		Decrease net pension liability £987k Decrease Pension reserve £987k		This is an estimation – adjustment is not expected
Other Land and Buildings (OLB) – Gross internal areas Our testing of Other Land and Buildings has identified an error in the use of an incorrect gross internal area (Oswestry Leisure Centre). This has been revalued based on the correct GIA and the value of the asset is now £2.1m lower than the initial valuation . When extrapolated across the remaining untested population there is residual uncertainty of £1.5m.		Decrease in OLB £3.6m Decrease in revaluation reserve £3.6m		**Management comment** Procedures will be put in place to confirm that GIA figures provided to valuers have been correctly applied. This should minimise the risk of any future misstatements.

D. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of unadjusted misstatements

To be confirmed upon completion of our audit procedures.

Impact of unadjusted misstatements - prior year

There were 2 unadjusted misstatements reported in the 2021/22 Audit Findings Report presented to this Committee alongside this report in November 2023. The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements.

Both amendments have been made within the 2022/23 financial statements.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure	Reason for not adjusting
<u>Cornovii Developments Limited- financial statements (impact Group only) - actual error</u> 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. At the time the Council's financial statements were prepared, only draft accounts of Cornovii were available for consolidation purposes. Cornovii's final accounts were signed in November 2022 and values within these statements were different to the draft version used by the Council. These include the following non trivial differences :				Management comment The change was not material and so it was planned that this would be reflected in-year in the 2022/23 Statement of Accounts
• Debtors £881k lower in final accounts compared to draft		(£0.8m)		
• Cash and bank balances £1.4m lower in final accounts compared to draft		£1.4m		
• Creditors £844k higher in final accounts compared to draft		(£0.8m)		
• Profit and loss £200k lower in final accounts compared to draft	£0.2m			
<u>Property, plant and additions (Impact single entity and Group) - actual error</u> Assets additions capitalised in 22/23 which relate to 21/22 financial year				Management comment This would affect multiple statements and notes if this was processed, therefore agreed as this is not material, this would not be changed.
• PPE additions		£1.021m		
• Capital accruals		(£1.021m)		
Overall impact - Group financial statements	**£0.2m**	**£0.2m**	**£0.2m**	
Overall impact – Single entity financial statements	**0**	**0**	**0**	

D. Audit Adjustments

Misclassification and disclosure changes - continued

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure/issue/Omission	Auditor recommendations	Adjusted?	Reason for non adjustment
General A small number of other minor amendments were made to correct typing errors, page numbering and incorporate additional narrative information. We do not deem these significant enough to bring to the attention of those charged with governance.	Amend typographical and formatting points.	Yes	N/A
Cashflow The Council has reviewed its allocation of investing and financing transactions for the 2022/23 financial year. We are satisfied this disclosure is appropriate and the Council has updated comparatives to reflect signed 21/22 financial statements. This has no impact on the Councils level of reserves and adjustments are contained within the comparative cashflow statement and associated notes.	The council should restate its comparative cashflow disclosures	Yes	N/A
Cash flow statement There is a material error in the cash flow statement. The £28.8m reported in note 29 (final table) includes the £20.5m capital loan repayments. This has not flowed through SDPS, as such cannot be adjusted from it. This needs to be restated to £8.2m which are the actual cash proceeds from sale of PPE and then links through to the profit/loss on disposal. This then impacts Investing activities, note 30. Proceeds from sale of PPE needs to reflect that shown in note 29, ie £8.2m instead of currently shown £2.6m. Other cash receipts from investing activities needs to be reduced by £26.1m as there is a duplication.	Amendments to stated values required	Yes	N/A
Audit Fee disclosure not in line those stated in the Audit Plan.	The Council should amend note 35 to include £179k fees payable to external audit services carried out by the appointed auditor rather than £213k. Fees payable to external audit for the certification of grant claims and returns should be changed to £42k and the row below for other services totalling £12kremoved.	Yes	N/A
Financial instruments – fair value measurement 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.	The Council should restate the fair value of its PFI liabilities using appropriate rate	Yes	N/A

D. Audit Adjustments

Misclassification and disclosure changes - continued

Disclosure/issue/Omission	Auditor recommendations	Adjusted?	Reason for non adjustment
Exit Packages Disclosure did not include a band for those with exit packages between £0 - £20,000 and also needed to group exit packages above £40,001.	The Council to amend Exit package banding disclosure.	Yes	N/A
Note 41, Related parties Disclosures are not complete in relation to Cornovii Housing Limited.	Related party not to be updated to include details of debtor balances of £13.250m between the Council and Cornovii Housing Limited. The Council should update this disclosure	Yes	N/A
Note 15, Property Plant and Equipment Disclosure table refers to fair value rather than 'current Value'	Terminology to be updated.	Yes	N/A
Note 16, Investment Property Totals within note do not agree.	£5,336k shown in the 'current' column should be recorded on 'to/from current/long term rather than to/from PPE	Yes	N/A
Contingent Liability Additional disclosure within financial statements regarding contingency liability position in relation to RAAC (Reinforced Autoclaved Aerated Concrete)	The Council should consider its current disclosure and include necessary narrative regarding the Councils RAAC status.	Yes	N/A
Financial instruments Accounting policies - Financial assets measured at amortised cost - 'loans and receivables' is out of date terminology from IAS 39. Definition as 'assets that have fixed or determinable payments but are not quoted in an active market' is also out of date and not fully in line with IFRS 9 .	Accounting policy should be updated to reflect IFRS 9 requirements	Yes	N/A
Accounting policies 1.27 – employee benefits Note states 'liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the indicative rate of return on high quality corporate bonds of appropriate duration). This is incorrect and should state 4.8%	Discount rate to be changed to 4.8%	Yes	N/A

D. Audit Adjustments

Misclassification and disclosure changes - continued

Disclosure/issue/Omission	Auditor recommendations	Adjusted?	Reason for non adjustment
Note 4 – Estimation uncertainty disclosures Per IAS 1, this disclosure should include the carrying amount of the relevant assets/liabilities for each source of estimation uncertainty described, including relevant sensitivity analysis. At present this is disclosed for some, but not all areas of estimation uncertainty.	The Council should review its disclosures relating to estimation uncertainty against the requirements of IAS1. We have also raised a recommendation for the council to review current disclosures to ensure all meet the criteria for material estimation uncertainty.	Yes	N/A
Note 19- Leases Code 4.2.1.3 scopes PFI arrangements out of the leasing section of the Code, so PFI balances do not need to be included in the leases note.	PFI balances should be removed from note 19, leases.	Yes	N/A
Note 20 – Financial Instruments There is an inconsistency between cash and cash equivalents disclosed as £27m within financial instruments but £27.6m in within the balance sheet Disclosures regarding overdue debtors refer to £22.3m debtors but it is unclear how this links with the £16m Long Term and £52m Short Term debtors also disclosed within the financial instruments note.	The Council should add further narrative within the financial instruments note to make it clear to the reader how values link to other financial statement notes.	Yes	N/A
Cash flow statement – note 29 'Wording of 'impairment and downward valuations' of £11.779m does not reflect the nature of the transaction.	Note 29 narrative to be amended regarding the £11.779m 'impairment and downward valuations'	Yes	N/A

D. Audit Adjustments

Misclassification and disclosure changes - continued

Disclosure/issue/Omission	Auditor recommendations	Adjusted?	Reason for non adjustment
Note 30 – Cash flow statement – Investing Activities There is a £29m entry in 'other payments for investing activities'. It is unclear what this relates to.	For individually material items the council should include additional narrative regarding nature of transaction.	Yes	N/A
Group CIES Group CIES does not include a line for Share of other comprehensive income and expenditure of associates and joint ventures Impact on Other Comprehensive Income and Expenditure per the group accounts includes movements of £10m compared to single entity, this is a material movement.	Group accounts disclosures and accounting treatment for joint venture to be reviewed and amended. For individually material items the council should include additional narrative regarding nature of transaction.	Yes	N/A
HRA – Property, Plant and Equipment note refers to incorrect financial year.	Amend financial year disclosures.	Yes	N/A
Note 17 – capital financing requirement. Capital investment of £70.235m does not include £684k of PFI assets, these have incorrectly adjusted to MRP	Increase capital investment – PPE by £684k, to £70.919m and increase MRP by £694k to (£9.655)	Yes	N/A
Note 10 includes a row headed 'Transfer of non-current asset proceeds from revenue to the Capital Receipts Reserve'. Further narrative is required this is not fully a transfer from revenue.	Enhance disclosure regarding the treatment of housing loan transactions and the impact on the Council's accounts.	Yes	N/A

D. Audit Adjustments

Misclassification and disclosure changes - continued

Disclosure/issue/Omission	Auditor recommendations	Adjusted?	Reason for non adjustment
Narrative Report As per CIPFA Code paragraph 3.1.1.16 The Narrative Report should allow the users to understand how materiality and the Group Accounts boundary decisions are made in relation to what is included in the financial statements of the authority and the impact on the financial statements. The Council's Narrative report does not currently include this disclosure.	The Council should review and update its narrative report disclosures to ensure compliant with CIPFA code	No	**Management response** The narrative report refers to Group Accounts but probably needs more information to be included. Will perform a full review of the requirements of the Code for the Narrative Report in future years.
Group accounts The Council's group 'adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement' has incorrectly been presented as a primary statement within the draft accounts.	The Council should move this disclosure to a note within the group financial statements rather than showing as part of primary statements.	Yes	Yes

E. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	£178,249*	£179,699*
Audit of subsidiary company - Shropshire Towns and Rural (STaR) Housing Ltd	£34,000	£34,000
Total audit fees (excluding VAT)	£212,249	£213,699

* See overleaf for a breakdown of the fee. This information was provided in our Audit Plan but is reproduced overleaf for completeness.

Non-audit fees for other services	Fees
Audit Related Services:	
• Housing capital receipts **	£10,000
• Teachers Pension Return **	£10,000
• Housing Benefit Subsidy Claim	£25,700
Total non-audit fees (excluding VAT)	**£45,700**

** These are proposed fees as the work in respect of these grant claims is incomplete. Therefore we are not in a position to confirm final fees as at the time of writing.

A reconciliation of the Council's External Audit Costs Note 37 of the accounts to fees above is as follows.

Council Audit fees (as above)	£180k
Total non-audit fees for other services (as above)	£45k
Accrual made by Council based on Scale fee consultation	£35k
Grant claim fee difference (housing capital receipts)	(£4k)
Rounding difference	(£2k)
Total external audit costs as reported in note 35	**£254k**

35. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Council's external auditors:

	2022/23 £000	2021/22 £000
Fees payable to external audit with regard to external audit services carried out by the appointed auditor	213	175
Fees payable to external audit for the certification of grant claims and returns	29	23
Fees payable in respect of other services provided by the external audit during the year	12	9
Total	**254**	**207**

We have now completed our work regarding an objection received in relation to the 20/21 financial statements. Our fee for this work is £4,950.

We are satisfied that statutory fees as well as non-audit fees for other services as set out in this report, reconciles to the draft financial statements (note 35). We have requested amendment to the disclosure to remove the £35k accrual made based on scale fee consultation. The fee of £34,000 in relation to Shropshire Towns and Rural (STaR) Housing Ltd is not included within the financial statements of Shropshire Council.

None of the above services were provided on a contingent fee basis. This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence.

E. Fees and non-audit services (per 2022/23 Audit plan)

Audit fees	Proposed fee	Final fee
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	121,811
Increases not included within revised scale fee - £5,438 for PP&E valuations	£5,438	£5,438
Continued impact in relation to decreased materiality	£3,750	£3,750
Impact of ISA540	£6,000	£6,000
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£3,000	£3,000
Increased audit requirements for ongoing raising of quality standards - FRC	£1,500	£1,500
Infrastructure	£2,500	£2,500
Other complex issues	£3,000	£3,000
Appointment of auditor's expert in respect of PP&E valuations	£5,000	£5,000
Enhanced audit procedures for Payroll – Change of circumstances	£500	£500
Enhanced audit procedures for Collection Fund - reliefs testing	£750	£750
Increased audit requirements of revised ISAs 315	£5,000	£5,000
Additional work on Value for Money (VfM) under new NAO Code	£20,000	£20,000
Property, Plant and Equipment – delays to evidence		£1,450
Total proposed audit fees 2022/23 (excluding VAT)	**£178,249**	**£179,699**

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

F. Management Letter of Representation (continued)

Date – To be confirmed

Dear Grant Thornton

Shropshire Council
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Shropshire Council and its subsidiary undertakings, Shropshire Towns and Rural Housing Limited, SSC 1 Limited and Cornovii Developments Limited for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the group and Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law. We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering 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 estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. PPA – to be confirmed upon audit completion

viii. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

ix. Except as disclosed in the group and Council financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the group and Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

x. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

xi. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

F. Management Letter of Representation (continued)

xii. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xiii. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council. The financial statements are free of material misstatements, including omissions.

xiv. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xv. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xvi. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

xvii. We have considered whether the Council is required to reflect a liability in respect of equal pay claims within its financial statements. We confirm that we are satisfied that no liability needs to be recognised on the grounds that:

a. In October 2018, Shropshire Council returned to National Joint Council (NJC) rates of pay for Local Government's Job Evaluation Scheme which ensures that work of equal value is allocated to the same salary banding, progression within which is determined by performance. The scheme is regularly updated to comply with equal pay legislation.

b. We do not have 'task and finish' working arrangements in place. All staff at the council are employed on either annualised hours or work to a specified rota appropriate to the service area.

c. The Council's Pay Policy Statement determines its approach to pay and the Remuneration Committee ensures the provisions set out in the statement are applied consistently throughout the Council.

Information Provided

xviii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements,from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

G. Management Letter of Representation (continued)

xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 23rd November 2023.

Yours faithfully

Name................................

Position..............................

Date.................................

Name................................

Position..............................

Date.................................

Signed on behalf of the Council

H. Audit letter in respect of delayed VFM work (presented to September Audit Committee as part of Audit Plan)

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 in line with guidance issued by the NAO a joint report will now be prepared for 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