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# Informing the audit risk assessment for Shropshire Council 2019/20

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Shropshire Council's external auditors and Shropshire Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

### Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

### Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Shropshire Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?</p>	<p>The COVID-19 pandemic that has hit the UK since March is anticipated to have an impact on some of the figures quoted within the financial statements. This is particularly the case with asset valuations where there has been little market evidence on which to base opinions of value, and so the figures quoted have less certainty that would normally be the case. The COVID-19 pandemic has also impacted on equity markets around the world which will have impacted on pension asset values, and finally an estimation of debt impairment has been made to reflect the potential impact on collection rates for the Council's debts.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Shropshire Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>The accounting policies have been reviewed. The only slight amendment to accounting policies is within the Non Current Assets – Property, Plant and Equipment which highlights that assets are subject to a revaluation on a minimum of every five years, however in the intervening years we now perform an annual desktop review to update the valuation held in the balance sheet.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>The Council holds financial assets and liabilities in the general running of the Council but does not use derivatives.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<p>No</p>

# General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No, all impairments that we are aware of have been reflected in the Draft Statement of Accounts.
6. Are you aware of any guarantee contracts?	No new guarantee contracts have been provided in 2019/20.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	Contingent liabilities that the Council is aware of have been detailed within the Draft Statement of Accounts. No further contingencies or un-asserted claims have been identified.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Shropshire Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>The Council in the main utilises the EMLawshare framework to source external legal support ( unless specific circumstances dictate otherwise ). The firms on that framework that have been used by the Council are as set out below. Where relevant, an indication has been given as to where those firms are assisting with litigation and matters disclosed by way of contingent liabilities:</p> <p>Bevan Brittan - various</p> <p>Browne Jacobsen – various and assistance with Local Government Ombudsman complaint</p> <p>Sharpe Pritchard – various and assistance in planning judicial review proceedings</p> <p>Weightmans - various</p> <p>Anthony Collins – various and Kier contract dispute negotiations.</p> <p>In addition the Council has instructed Andrew Uprichard ( sole practitioner ). The Council has also instructed Gowlings solicitors to assist with general waste management and bereavement services contract advice and assistance given their knowledge and expertise as a result of advising on the original contracts for those specific service areas.</p>

# General Enquiries of Management

Question	Management response
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None identified
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Council has sought out general advice for a variety of service areas over the course of the year which will include general advice specifically around capital programme schemes. Other areas where specific advice has been sought relates to Highways Management, review of Leisure Services, the implementation of Cornovii Developments Limited and the Shopping Centre developments.



# Fraud

## Issue

### Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Shropshire Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Risk & Assurance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Shropshire Council's management.

# Fraud risk assessment

Question	Management response
<p>1. Have Shropshire Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>Fraud risks are identified by Internal audit in their audit plan, and fundamental systems which feed the statement of accounts are reviewed on a risk basis to ensure that controls in place are satisfactory. The statement of accounts is also subject to an analytical review each year which considers any significant or material changes to figures, to confirm that the accounts are presented without such misstatements.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Counter fraud risk assessment reported to Audit Committee December 2019 listed the following areas as high and medium</p> <p>High</p> <ul style="list-style-type: none"><li>• Housing benefits</li></ul> <p>Medium</p> <ul style="list-style-type: none"><li>• Payroll, fraudulent travel, expense, overtime and timesheets</li><li>• Pension continues after death</li><li>• Employee commits benefit fraud</li><li>• Inappropriate and incorrect contract awards</li><li>• False invoicing</li><li>• Debtors; claiming false exemptions, failing to raise a debt, suppressing recovery action</li><li>• Theft of cash</li><li>• Council tax discounts</li><li>• NDR reliefs</li><li>• Parking abuse including blue badge use/disabled parking</li><li>• Direct payments / personal budgets</li><li>• Property and taxi licenses</li><li>• Schools diversion of resources</li></ul>

# Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Shropshire Council as a whole or within specific departments since 1 April 2019? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Yes, but not of a material nature and levels are very low, all are investigated and outcomes reported to Audit Committee regularly.</p> <p>Directors receive a quarterly briefing which also outlines the internal controls required for improvement as a learning from any such allegations once investigated.</p> <p>System managers receive a report directly and sign up to implementing internal control improvements within an agreed timeframe.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Shropshire Council where fraud is more likely to occur?</p>	<p>See 2 above.</p>
<p>5. What processes do Shropshire Council have in place to identify and respond to risks of fraud?</p>	<ul style="list-style-type: none"> <li>• Risk assessment</li> <li>• Vigilant staff with regular training accessible on an electronic system</li> <li>• Reminders to staff</li> <li>• Regular updates to managers and members regarding learning from investigations</li> <li>• Networking with other key counter fraud bodies and organisations</li> <li>• Counter fraud work in internal audit and other parts of the organisation</li> <li>• Counter fraud, anti-bribery and corruption strategy and practices</li> <li>• Full details available in annual Audit Committee report on Counter fraud and anti-corruption strategy, latest December 2019</li> </ul>

# Fraud risk assessment

Question	Management response
<p>6. How would you assess the overall control environment for Shropshire Council, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Reasonable Code of Governance assurance</p> <p>Limited Internal Audit year end assurance, some limitations have been placed on the scope of some of the key financial audits, the largest being Payroll. The scope for the Payroll audit was constrained responding to the Service needing to focus on pure business activity, prior to the Coronavirus pandemic. The Payroll Service was suffering from resource pressures at the year end with single points of failure and unable to engage with Audit fully. The advent of Coronavirus then impacted on the availability of officers running other financial systems and saw staff diverted to respond to front line pressures under business continuity plans. Given the timing of the Audit and the impact of Coronavirus, management comments were being provided for Payroll as this report was being drafted but not with some of the other key systems. Where this is the case, management have committed to review the internal controls once resources allow and hope to achieve this in the next six months, but if not, the process will be revisited with the Head of Audit</p> <p>Plans in place and outlined in the AGS to target continuous improvement.</p> <p>Controls are built into every system operating across the Council at all levels.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Not aware of any.</p>

# Fraud risk assessment

Question	Management response
<p>8. How do Shropshire Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported?</p>	<p>The Council shares the whistleblowing policy with the public and all contractors. The terms and conditions within Council contracts also include ethical considerations for contractors and suppliers. The vision and values for the Council identify the need for staff to act with integrity in all the undertakings we make and this is tested and reviewed via team meetings and engagement surveys undertaken across the whole organisation.</p> <p>Staff are encouraged to report their concerns about fraud as set out in the Speaking up about wrongdoing (whistleblowing) policy and the Council's Counter Fraud, Bribery and Anti-Corruption Strategy. No significant issues have been reported.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Posts are risk assessed by service areas with the support of HR and where identified as politically restricted, or requiring DBA checks comply with approved processes.</p> <p>Systems and processes are designed with separation of duties; access controls; recruitment checks, training and induction plans, etc. to ensure that risks are minimised and managed regardless of the post holder.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No.</p> <p>Potential conflicts of interest are declared at public and private meetings. Officers in specialist roles also declare any conflicts to ensure their work programmes can be planned around these. Employee and Member Codes of Conduct specify clear processes for this.</p>

# Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>Potential fraud risks are assessed across the Council and activities in place to mitigate these. These are reported annually to the November/ December Audit Committee. In addition, every Committee meeting has an update report on frauds, special investigations and RIPA activity in which the internal controls that led to the activity are considered and reported upon. Managers receive reports and agree to implementing improvements to reduce the opportunity for repeat frauds, etc going forward therefore improving the control environment.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Any complaints of this nature are dealt with under the approved policy and the outcome is reported to the Monitoring Officer and Audit Committee.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No.</p>

# Law and regulations

## Issue

### Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Shropshire Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Shropshire Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Each year the Council's corporate governance arrangements and risk management arrangements are reviewed and reported upon by Internal Audit and Risk Management teams. The Council has a robust corporate governance and risk management process in place.</p> <p>The Council has a Monitoring Officer and Section 151 Officer who provide assurance that all relevant laws and regulations have been complied with. Also all Cabinet reports now have a standard section detailing any legislative issues. Any non compliance is reported to management via Internal Audit reports and appropriate plans are put in place to remedy such issues.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>All reports on the Council's corporate governance arrangements are presented to Audit Committee to provide assurance that the appropriate arrangements are in place and that they are working well.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>The Section 151 Officer is not aware of any instances of non-compliance with relevant laws and regulations in 2019/20.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>The Section 151 Officer is not aware of any actual or potential litigation or claims that would affect the financial statements.</p>



## Impact of laws and regulations

Question	Management response
5. What arrangements does Shropshire Council have in place to identify, evaluate and account for litigation or claims?	Risk management, insurance and legal work together to identify and evaluate any potential litigation or claims against the Council. Any potential liabilities are highlighted each year in the Council's Statement of Accounts.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No such reports have been received.

# Going Concern

## Issue

### Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

# Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for Shropshire Council? What was the outcome of that assessment?</p>	<p>Yes it has considered this particularly against the COVID-19 pandemic financial pressures and the uncertainty on the longer term financial funding picture from the Government, which is addressed within the Council's Financial Strategy and the outcome is that the going concern principle can still be applied.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with Shropshire Council's Business Plan and the financial information provided to Shropshire Council throughout the year?</p>	<p>The Draft Statement of Accounts refers to management reports that have been made during the year, and highlights future financial position of the Council as outlined in the Council's Financial Strategy. The Financial Strategy considers the financial assumptions for the Council over the short, medium and long term. Each year an exercise considers the robustness of estimates and the adequacy of reserves and provisions which provides assurance to members that the Council's budget plans have been based on the best available information and assumptions. This also provides Audit Committee and Scrutiny Panels, as well as Cabinet and Full Council, the opportunity to comment upon and challenge the approaches taken and implications highlighted. Financial monitoring during the course of the year evaluates any variations from budget plans set out in the Financial Strategy and Budget Book, and also considers the effects that any variance has on the Council's General Fund Balance. This is monitored on a monthly basis and the implications and impacts for future years are updated within the Financial Strategy.</p>

## Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The Financial Strategy considers any policy or legislative changes affecting the Council in the short, medium and long term and identifies any financial implications arising from such changes and the Council's plans for mitigation.
4. Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	Although assumptions are regularly challenged by the Audit Committee, no such issues have been raised.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	Financial monitoring has not identified any such adverse financial indicators. An overspend (within accepted tolerance levels) has occurred during 2019/20, for the first time in many years, however the action taken by the Council to reduce the potential overspend pressure during the year highlights that financial performance is monitored and addressed promptly by the Council.

## Going concern considerations

Question	Management response
<p>6. Does Shropshire Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>The Council have the relevant expertise to deliver the Council's strategy and objectives. Despite the on-going voluntary redundancy programme, arrangements have been made to retain appropriate experience.</p> <p>The Council also has a performance review process in place to identify any skill requirements within the staff base and identify appropriate training and support in addressing any gaps in knowledge.</p>
<p>7. Does the Council have procedures in place to assess their ability to continue as a going concern?</p>	<p>There are a number of financial reports prepared during the course of the year that allow the Council to consider its ability to continue as a going concern. These include budget monitoring reports, financial strategies and the statement of accounts report.</p>
<p>8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?</p>	<p>No events or conditions have been identified.</p>

# Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Audit Committee ?</p> <p>How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>The Audit Committee consider a number of financial reports which provide them with assurance that the Council continues as a going concern. These include the Statement of Accounts, Revenue and Capital outturn reports including analysis of reserves held, and Treasury management Strategies. They also receive reports stating that all controls and risks have been managed appropriately and as Members will have access to all reports produced across the Council whether public or exempt.</p> <p>The Audit Committee receives the draft and final Statement of Accounts and has opportunity to raise queries. Prior to approval of the final Statement of Accounts, officers provide an overview highlighting key matters in the accounts and again providing opportunity for queries.</p> <p>Members have access to all Council reports, including the budget and regular financial management reports which provide assurance on the current and projected financial position of the authority.</p>

# Related Parties

## Issue

### Matters in relation to Related Parties

Shropshire Council are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Shropshire Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

# Related Parties

Question	Management response
1. What controls does Shropshire Council have in place to identify, account for and disclose related party transactions and relationships ?	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"><li>• Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions.</li><li>• Annual return from senior managers/officers and members requiring confirmation that they read and understood the declaration requirements and stating details of any known related party interests.</li></ul> <p>The Council's related parties include Central Government; organisations on which it is represented by members including West Mercia Energy and Shropshire Fire and Rescue Service; and entities which are controlled or significantly influenced by the Authority which includes ip&amp;e Ltd, Cornovii Developments Limited, SSC No.1 Ltd, Jersey Property Unit Trusts for the Shrewsbury Shopping Centres, the Shropshire County Pension Fund and Shropshire Towns and Rural Housing.</p>



# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

Shropshire Council apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes –see Appendix 1 below.
3. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The accounting policies and notes included in the Statement of Accounts provide information. External Audit provide assurance.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment valuations	<p>Full valuation involving an inspection is carried out a minimum of every 5 years. A desktop valuation review is carried out to update valuations annually to the Balance Sheet date.</p> <p>Other assets are valued on the basis of depreciated replacement cost for specialised properties where there is no market-based evidence of fair value.</p> <p>Depreciated historic cost is used for vehicles, plant and equipment. Historic cost is used for infrastructure, community assets and assets under construction.</p>	<p>Capital Accountant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation.</p>	<p>Use Property Services (RICS valuer) for</p>	<p>Valuations are made in-line with RICS guidance –reliance on expert. Assumptions are set out in valuer's report.</p>	<p>No</p>

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of PPE	<p>The following useful lives have been used in the calculation of depreciation:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Council Dwelling – componentised depreciation, using a straight-line basis over their useful life (10-80 years) for Decent Homes Standard; with the residual amount (excluding land) depreciated over 150 years.</li> <li><input type="checkbox"/> Other Land and Buildings – average 10 to 60 years range.</li> <li><input type="checkbox"/> Vehicles, Plant, Furniture &amp; Equipment – average 5 years.</li> <li><input type="checkbox"/> Infrastructure – average 40 years</li> </ul>	<p>Specific asset lives applied to buildings. Consistent asset lives applied to each asset category.</p>	<p>Use District Valuer for Council Dwellings. Use Property Services (RICS valuer) for buildings valuations. Other assets considered by Property Services Manager and capital accountant</p>	<p>The length of the life is determined at the point of acquisition or revaluation. Major components are depreciated separately.</p>	<p>No</p>

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	Depreciation is provided for all fixed assets with a finite useful life on a straight-line basis	Consistent application of depreciation method across all assets	No.	The asset is not depreciated until it is available for use and each significant part of property, plant and equipment is depreciated separately. Asset lives are determined at acquisition/revaluation. Depreciation is calculated on a straight line basis. The asset lives are recorded in the asset register.	No.

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	<p>Assets are assessed at the year-end for any indication that an asset may be impaired. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year. The impairment of Housing Revenue Account assets is subject to an annual review of value in line with the requirements of the CLG; this is based on the previous December's house price statistics published by ONS. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.</p> <p>Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.</p>	This assessment is made by the internal valuer for land and buildings and by Property Services Manager and capital accountant (and other relevant officers for the asset type) for other assets	Use Property Services (RICS valuer) for buildings valuations	Valuations are made in-line with RICS guidance.	No.



## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead allocation	Central support costs are apportioned to services based on an agreed criteria.	All support service costs centres are allocated according to the agreed allocation.	No	Apportionment bases are reviewed annually.	No
Measurement of Financial Instruments	The Council values financial instruments at amortised cost. (The fair value of financial instruments are disclosed in the notes to the accounts).	Take advice from finance professionals where appropriate.	External Treasury advisors & PWLB	Take advice from finance professionals and external Treasury advisors.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year that the Council becomes aware of the obligation.	No.	Estimated settlements are reviewed at the end of each financial year –where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council	No.



## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Bad Debt Provision	A provision is estimated using a proportion basis of an aged debt listing. The finance team obtain the aged debt listings for the sales ledger and the aged debt lists for Council Tax, HRA rents and business rates to calculate the provision.	Outstanding debt informs management judgement.	N/A	Consistent proportion used across aged debt as per the Code.	No.

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Review financial systems and question service managers to identify where goods have been received but not paid for.	No.	Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used.	No.
Non Adjusting events – events after the balance sheet date	Section 151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date this is an un-adjusting event. A note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.	The Section 151 Officer is notified by relevant managers.	This would be considered on individual circumstances.	This would be considered on individual circumstance.	No.



## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Liability	The Council is an admitted body to the Shropshire County Local Government Pension Scheme. The administering authority (the Unitary Council) engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No.
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Mercer. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Council responds to queries raised by the administering body, Shropshire Pension Fund.	The Council are provided with an actuarial report by Mercer (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI Finance Lease Liability	The operators financial model is used as the basis for calculating the liability.	The operators financial model is used as the basis for calculating entries and this is reviewed by Finance on an annual basis.	No.	The construction elements of the annual unitary charge is accounted for as a finance lease. Minimum lease payments are made under these leases and assets recognised under these leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.	No.





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